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THE PROBLEM OF INDUSTRIAL RELATIONS

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THE PROBLEM OF INDUSTRIAL RELATIONS

AND OTHER LECTURES

BY

HENRY CLAY, M.A.

PROFESSOR OF SOCIAL ECONOMICS IN THE UNIVERSITY OF MANCHESTER

"The subject is, in the highest degree, interesting to humanity, it is open to philosophical discussion, and I have taken no greater liberties than becomes a philosopher, a man, and an Englishman."

PRIESTLEY on *Government* (1768), p. vi.

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TO

E. D. SIMON

PREFACE

The difficulties of the post-war years have dispelled the notion, once common, that industrial disputes are the private affair of the parties engaged in them. It may be doubted, however, whether the growing realisation of the public interests involved has brought with it a corresponding appreciation of the difficulties with which industry is faced. Strikes and lock-outs commonly raise more issues than they settle, and the public attention is apt to flag, once work is resumed. In the lectures and essays collected in this volume an attempt is made to clarify some of these issues, directly by analysing the problem of industrial relations itself, indirectly by examining certain factors in industry and in the distribution of wealth, by which that problem is conditioned.

The experience studied is mainly English. One of the subjects touched on, however, the problem of Government control of wages, I had the opportunity of studying systematically and in great detail—and in very happy collaboration with local investigators—in relation to the economic conditions of another country, South Africa. The reader who is interested will find the results in the Report of the Economic and Wage Commission (Cape Town, the Government Printers).

I wish to acknowledge my indebtedness and to express my thanks to the editors and others by whose permission some of the contents of the book are reprinted; to the Editors of the *Economic Journal* for III., V., and XI.; to the Editor of the *Manchester Guardian* for parts of IV. and VI.; to the Editor of *The Commercial* for part of VI.; to the Editor of *The Journal of Public Administration* for VIII.; to the Editor of the *Hibbert Journal* for XIV.; and to the Council of the Manchester Statistical Society for XIII. My acknowledgments and thanks are due also to my wife for her great help in preparing the book for publication.

HENRY CLAY.

The University,
Manchester.

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I

THE PROBLEM OF INDUSTRIAL RELATIONS ON THE EVE OF THE WAR*

I.—Definition of the Problem.

Last year, judged by the standard of working days lost in strikes and lock-outs, was the worst year in the records of industrial relations. No excuse, therefore, is needed for taking the problem of industrial relations as the subject of the first course of public lectures given on a foundation that is intended to promote the study of contemporary social and economic problems. The problem as a whole is too wide to be studied usefully in a short course; the particular aspect that I propose to examine is the effect of the war upon industrial relations. It will prove, I believe, possible to distinguish and set forth certain effects which the war has had, of which post-war policy must take account, without attempting to cover the whole field. The attempt is worth making; the special difficulty, with which post-war study for purposes of practical policy finds itself faced, is just that of discriminating between the special effects of the war and the difficulties that spring from pre-existing and more permanent conditions of industry. We tend to oscillate between an attitude of mind in which all our post-war difficulties are attributed to the war, and one in which they are regarded as merely a resumption, exaggerated perhaps by the shock of war, of troubles inherent in the present organisation of industry and essentially independent of the war; or rather, we tend to fall into two schools, a school that accepts the present economic order as essentially sound but disordered by the war, and one that regards it as

* A public lecture delivered in the University of Manchester on November 1, 1927.

fundamentally unsound and needing radical reorganisation, war or no war.

The problem of industrial relations does not lend itself to this easy diagnosis. It existed before the war; it is different since the war; only by an examination in detail can we hope to discern and allow for the effects of the war. After stating what I think the problem of industrial relations to be, I shall endeavour to establish three propositions: that the problem is intrinsically difficult, not susceptible of any simple and easy solution, or indeed of any single and final solution at all; that before the war we had arrived at a fair working solution, even if we did not realise the extent of our success and good fortune; and finally, that this pre-war solution was becoming inadequate, that its basis was being undermined, and that already the new conditions that were to make the post-war problem so much less tractable had appeared.

First, then, to define the problem: I followed common practice in taking the number of working days lost as a measure of the problem. But the stoppage, the strike or lock-out, is not itself the problem of industrial relations. Last year was exceptional; the number of working days lost, 163,000,000, was greater than the aggregate of the twenty years immediately preceding the war. Obviously there are special influences at work affecting the post-war years, and the permanent factors must be sought in the less disturbed conditions of pre-war years. At that time, taking the twenty years before the war, the average number of working days lost was less than eight million, or about one-twenty-fourth of the working time lost through unemployment, one-fifteenth of the time lost through sickness. To put it differently, the average loss was about one-sixth of 1 per cent. of the working year; in the worst year, 1912, about 1 per cent.; in a bad year, like 1911 or 1913, something less than the equivalent of a single extra Bank Holiday. It is less the direct than the secondary effects of stoppages that are important—the dislocation of other industries, the interruption to the smooth co-operation of industry, the added uncertainty of business; and, less obvious but not less certain, the sense of injury that survives after the

stoppage itself is ended, and the obstacle to harmonious working that such a feeling imposes.

Ill-feeling and a sense of injury, however, precede as well as follow strikes. Even the indirect effects of stoppages are less important than the evidence they afford of unsatisfactory relations in the normal working of industry, evidence of a conflict of interests so acute and felt so keenly, that the parties prefer stopping the industry on which they both depend to forgoing their claims—much as if the women who came before Solomon had accepted his judgment and sacrificed the baby. It is conceivable that the actual strike or lock-out might be prevented by an autocratic or an oligarchic government; it is the exercise of a right that is incidental to personal freedom, and that might not survive the loss of that freedom; but it would not follow that industrial relations were therefore satisfactory. Bad conditions, unnecessarily low wages, a smouldering discontent that finds its expression in restriction of output, arbitrary discipline and unwilling service, are results of unsatisfactory industrial relations as important as strikes and lock-outs. Industrial unrest is not greatest where conditions are worst, nor least where the greatest improvement has been made; rather the contrary. The stoppage is a subordinate problem; to deal with it, to the neglect of the conditions that give rise to it, is to waste effort, and to incur the risk of making things worse that usually attends the treatment of symptoms as causes. The problem is much wider, and must be taken to include everything that is involved in the determination of the contract of employment. As a practical problem, it is the problem of finding an adjustment of the interests of employers and employed, that will secure the co-operation of both in the work of production. Where, however, there is no legal obstacle to the strike, and wage-earners are not so depressed that they cannot avail themselves of the legal opportunity, the number and intensity of stoppages is not a bad indication of the success or failure of industry in solving the problem of industrial relations.

II.—Implications of the Problem.

If this definition is accepted, it is merely a truism to say that the problem is intrinsically a difficult one. Truisms in economics, however, are truths that are commonly overlooked; and the impression that there is some simple and easy solution, the assumption that industrial relations can be settled once for all by the adoption of this, that, or the other device, is widespread enough to show that the intrinsic difficulty of the problem is not generally realised. So far from there being any single or simple solution, the problem is one of endless and continuous adjustment, because the relations between employers and employed are affected by every change in the conditions of industry or the ideals of the workers. We shall realise the implications of the problem if we glance at the actual occasions over which disputes arise.

The recorded causes of strikes and lock-outs fall under two main heads: wages, and discipline or control. In 1911, a bad year, but not a year in which a national coal stoppage rendered conditions abnormal, disputes over wages and hours accounted for two-thirds of all stoppages (607 out of 903). Of these, 374 were demands for increases, as was to be expected in a period of rising prices; but in the same year 41 stoppages took place over demands for decreases, 30 over methods of remuneration, 87 over claims arising from difficulties of working or quality of material, and 44 over other questions affecting wages. Any other year would show the same variety of causes. Thus the settlement of the wages element in the problem involves some adjustment of rates and earnings to the general movement of prices and production, to profits, and to the customary expenditure of the wage-earners. It must take account of the varying circumstances of particular industries; the wage-earners in a declining industry may prefer some reduction in earnings to unemployment and the necessity of finding new jobs; but an excessive divergence of rates in different industries employing the same grade of labour provokes discontent and is economically undesirable. One industry's capacity to pay wages is affected by the charges of other industries—iron and steel for example by the cost of coal. Industries,

like cotton, that depend upon imported raw material, have their capacity to employ labour and pay wages limited by circumstances outside their control, and the endeavour to economise on dear material, when supplies are short, by using inferior grades, lends to claims for compensation for the added difficulty of working. In some industries, such as coal, conditions of work vary from place to place, and on any system of payment by results allowance has to be made for such variation. There are important possibilities of difference over the most suitable method of calculating wages, which cannot be settled by any general rule, because the method suitable to one industry or process will be unsuitable to another. And all these conditions, to which wage-rates must be related—prices, prospects, competition, processes, materials, methods, and the wage-earner's ideas of what is due to him—are in a state of continual change, so that the business of adjustment can have no end.

Let us glance at the differences that do not arise over wages or hours, but over questions of discipline or control. Discipline, or some other method of co-ordination, is a necessity of industry, because the labour of operatives is useless unless it is organised and directed to the common end of production. Doubtless the spontaneous co-operation of workers without external control is a preferable ideal; but the number of individuals involved in any complete process of manufacture is so great, that it is quite impossible for each to hold in his mind the purpose and organisation of the whole process and so direct his own labour. Co-ordination, therefore, involves the exercise and delegation of authority; and authority is liable to be abused. In the year we have taken for purposes of illustration, of 140 disputes that were not about wages and hours, one-fifth were over objections to foremen and officials. Again, co-ordination involves discipline; half of the 140 cases was over the reinstatement of dismissed or suspended workpeople. It involves the allocation of work—ten disputes arose in engineering over the employment of labourers on machines, thirteen were disputes between different classes of workpeople (most of them in shipyards) over demarcation of jobs. Underlying this whole group of differences is the

general difficulty, that operatives suffer by inefficient or mistaken direction, but have no say in determining it; while management loses by inefficiency or personal deficiencies in members of staff, but has no power, short of dismissal, to correct them. The employer's problem in this country is no longer the adjustment of relations with unorganised individuals, who will submit to inspection and interference in their private life outside the factory; still less with the contract labour by which so much of the world's work is done. In a democratic community, in which there are no marked racial differences or other distinction between privileged and unprivileged classes, the government of industry, like the government of the country, has ultimately to be based on consent.

One further complication; the problem of industrial relations is made more difficult even than the nature of industry by itself would make it, by certain incidents of the present economic order, which are independent of the contract of employment, but materially affect the temper in which wage-earners enter into that contract.

There is first the inequality in the distribution of income, which characterises our society. According to Professor Bowley's estimate, wages and salaries in manufacturing and mining industries in the year of the first Census of Production, took 68 per cent. of the net product, leaving only 38 per cent. for interest, profits, royalties and rents. But the few large incomes impress popular opinion out of proportion to their number: large incomes derived from sources other than industry are vaguely regarded as ultimately derived from industry; and the wage-earner slips into comparing wages, not with the employer or capitalist's share of the product, but with the income of the richer classes generally —if he has any idea of the sums involved, he thinks not of the £400,000,000 or so that the profits and interest of industry before the war amounted to, but of the £1,300,000,000 which was the difference between the national wages bill of £800,000,000 and the £2,100,000,000 at which the national income was estimated.

In the second place, there is the complete dependence of most wage-earners upon their wages, and the tendency to

use the instrument by which they defend and raise wage-rates for purposes which have nothing whatever to do with the employment relation. A wage-rate is a price, but it has a unique importance among prices, since any alteration in it affects the way of life of the largest class in the community. Although the aggregate savings of the wage-earning class are considerable, there are very few individual wage-earners who could maintain themselves for long if their wages were interrupted. Most wage-earners have no reserve of savings to speak of, and their wages leave little margin over customary expenditure to draw on for unusual expenses. The costs of transfer to another locality, or of establishment in another industry, serious illness or accident, the expense of a legal action, fall with crushing weight, if provision has not been made for them by some form of collective insurance. A wage-rate, therefore, which to the employer is only one expense among others, has a very different emotional significance for the wage-earner. The wage-earner will incur much greater sacrifices to enforce a wage-claim than the seller of a commodity to enforce a price, and negotiations over wages are correspondingly more obstinate and heated than negotiations over other prices. Moreover, the wage-earner has found that to get the best price for his labour he must bargain collectively, not individually, and that he can rely upon securing attention for his claims only if he backs them up by the threat of a collective withholding of labour. To the wage-earner collective bargaining is essential to effective bargaining, and the strike is the sanction of collective bargaining.

The effectiveness of the strike for the particular purpose for which it is primarily intended perhaps explains its use for other purposes. In the last pre-war Report on Strikes and Lock-outs the following, not at all untypical, cases occur: "In one case 300 workpeople struck for one day, refusing to work with certain persons involved in a quarrel between two families; in another, 3,000 dock workers struck for three days demanding the suspension, pending enquiry, of a dock policeman who had arrested a workman on a charge of using obscene language, and further requiring the withdrawal of the charge. . . . In the third case over

300 bricklayers and labourers struck for one day on a certain job against the employment of foreign bricklayers. . . . In South Wales 1,000 miners struck for three days alleging that they had been prevented from attending the funeral of a comrade who had been killed at work. At a colliery in Nottingham 1,100 miners struck for one day in sympathy with a contractor from whose stall coal was alleged to have been stolen by men from another stall who loaded it in tubs wrongly numbered. . . . In Yorkshire a pit was stopped for one day as a result of the pit lads striking in sympathy with one of their number who refused to work on account of alleged insufficient compensation paid to his father for an accident." Reference has already been made to strikes over bad material or conditions of working, strikes to secure the reinstatement of workers dismissed, and so on. Most of these incidents are cases where a man of property would have sought a remedy by a civil action, if a legal remedy existed, or by an offer of or demand for payment, if the concession demanded was one which he could not exact by legal action; the wage-earner, being without property in this sense, avails himself of the only means that he has discovered for remedying grievances—the strike.

Illustrations could be multiplied, but enough has been said to show that intrinsically the problem of adjusting industrial relations is difficult. Even when its difficulty is recognised, however, it is not always faced. A common misconception regards the difficulty as arising entirely from a conflict between private capitalist and worker, due to and dependent on the private ownership and use of capital. That the view is a misconception is proved by the persistence of the difficulty, and of the symptom—the strike—through all the different methods of organising industry and applying capital of which we have experience in large-scale industry. It persists in Public Employment; the symptom—the strike—is less frequent, not because there is no discontent, but because there are special deterrents, in the form of pension and establishment rights, that would be endangered by striking. It persists in Co-operative Employment, where the strike occurs as frequently as in the corresponding branches of "private enterprise," and numerous

experiments in conciliation machinery have been necessary. It persists even when we have the direct employment of one group of workers by another; clerks employed by great trade unions have been known to strike, and the frequency of demarcation disputes show that differences are not restricted to the relations of employers and wage-earners. The change from private to public or co-operative employment is not without influence on the problem; but the mere substitution of a co-operative society for a private employer does not answer the question, what is a proper wage for a shop-assistant or the driver of a delivery van; the substitution of the Admiralty for a joint stock company does not decide whether plumbers, coppersmiths, or fitters should fit a two-inch pipe in some part of a ship; a Coal Controller or Minister of Mines responsible to Parliament would find it as difficult a problem as private owners do to know what should be done when a slump in trade, or the sudden invasion of former British markets by a new competitor, threatens at current rates of wages to throw a third of the miners in an export field out of employment. Nor does the substitution of a public for a private employer enable industry to dispense with discipline, or with the hierarchy of authorities to which the mass of workers are subjected. Nor will the change make the wage-earner any less dependent on his wages.

The problem of industrial relations is indeed persistent, because it is fundamental. It arises necessarily from the nature of the productive organisation. The basis of productive economy is specialisation, which necessarily involves three things: first, the separation of producer and consumer, and therefore the problem of settling the terms on which products shall be paid for by consumers; second, the co-operation of many specialised workers in the simplest act of production, and therefore the problem of valuing the contribution of each—in other words, of determining the distribution of the proceeds of the joint work which are received from the consumers; and, third the co-ordination of the specialised workers in an immensely complicated organisation and their direction to the common end of the industry, which in turn involves the subordination of the

rank and file of workers to some directorate. None of these is dependent in any way on the ownership of capital. It is conceivable that the adjustment of industrial relations might be secured in other ways—for example, by a uniform subsistence allowance and a centralised direction of industry by an authority that might be democratically founded. But such an authority would either have to control consumption by rationing, or, if it allowed any play to the influences of a free market, it would have to be prepared for demands for a differential wage from the workers whose product was yielding a differential return (as the miners struck in October, 1920, for a share of the profits that the Government, by exploiting to the full the Coal Controller's monopoly of British coal, was securing from the foreign consumer). It would have, moreover, to devise some alternative system, if human motives did not change, of directing labour from tasks which were less required to tasks that were more required, in the place of the present pull and push of differing wage-rates and varying employment (as the Ministry of Munitions during the war found itself unable to control wages unless it could control the movement of labour by the Leaving Certificate provision of the first Munitions Act and the threat of compulsory military service). And it would have to find a substitute for the present automatic, if imperfect, safeguard of economy, which the need of keeping costs under prices imposes. It seems more probable that the present organisation of industry upon a basis of free purchase and free labour will persist in essentials, and with it the system of wage employment; by which I mean the system, under which the great majority of people have no contact with the consumers of the products of their labour, but do their work under the direction of an intermediary, who organises their work and pays them for it currently. In that event the problem of adjusting the relations of these wage-earners and that intermediary will remain with us.

III.—The Pre-War Solution.

The second proposition that I wish to establish follows from the first. It is, that before the war we had in this

country reached a fair working solution of the problem. I do not forget the fears that the strikes and threats of strikes of 1911–14 excited. Such fears are a normal concomitant of the problem, because any agitation for better conditions is in the eyes of the more comfortable classes a sign of imminent revolution. They are current today, although, as I shall try to show, industrial unrest is much less than we had any reason to expect after the war. They were current, or at any rate impressed observers in other countries as they do today, in the past.* If I have succeeded even in suggesting the intrinsic difficulty of the problem, then the figures of stoppages—one-sixth of 1 per cent. of the working year; one twenty-fourth part of the time lost by (pre-war) unemployment; probably much less than the loss due to preventable sickness or drink—are astonishing. The comparison with unemployment is not unfair, since the immediate cause of the latter, as of strikes and lock-outs, is failure to agree on a price. Buyers refuse to take all that is produced at a price that makes it worth producing, and producers contract the scale of their operations. The adjustment should be easier than in the case of the price of labour, since the same feeling is not aroused, and because buyers and sellers of commodities do not usually adopt the "all or nothing" policy of trade unions; yet the loss of production due to failure to make a satisfactory adjustment was twenty-four times as great. How many bargains were struck it is impossible to say; but a wage-earning population of over sixteen millions in a period of rapid economic change was involved in an average of only 643 stoppages (involving more

* Describing the reception in Germany in 1890 of his study of English industrial relations, Dr. G. von Schulze-Gaevernitz tells us that our system of organised collective bargaining was described as "the first step in England's political and economic degeneration. . . . The New Unionism, dating from 1889, pointed to nothing short of the old 'physical force Chartism.' Since then the strictly revolutionary element had been steadily gaining ground in England. The peaceful continuity that had hitherto marked the development of her industrial history was broken, and a sanguinary outbreak was inevitable. . . . England was at that very moment on the eve of a great revolution" (*Social Peace, a Study of the Trade Union Movement in England.* Preface to the English Edition, 1893).

than ten workers and lasting more than one day) in the ten years immediately preceding the war. Nor was this process of bargaining unsatisfactory in its results. Wealth increased at something like double the rate at which population increased; and the wage-earner secured his share of the increase. Professor Bowley's estimates show that between 1880 and 1913 the average income of the country increased 37 per cent., the average wage 34 per cent., while the proportion of the population in the lowest income class diminished.

If we look closer at the pre-war arrangements for adjusting industrial relations, it becomes clear why so few disputes led to stoppages. In a sentence, the parties to the negotiations never had to face the problem as it presents itself to analytical study; all they had to do was to make slight modifications and adjustments in a system of rates and conditions, which was generally accepted. When I say that it was generally accepted, I mean that no one ever entered into negotiations with the hope or intention of effecting a revolutionary change.* The basis of order in industry was a system of relatively stable wage standards, defined and enforced by trade unions or by custom, to which prices and production accommodated themselves. For every grade and class of worker a fairly well-understood wage standard in each district had to be paid; if the price that the consumer would pay, after meeting other necessary expenses, would cover this and leave a profit, production would be maintained or expand; if not, production would be curtailed and finally given up. Employers' profits took the first shock of depression, and the first gain due to any advance in prices. Continued depression, general or confined to a

* That some questioning was imminent is perhaps indicated by Mr. Larkin's evidence before the Industrial Council in 1913: "I say again, with all due respect to your trade, I am just as much entitled to 42s. a week as a pattern-maker is; I am just as able a man, though I am not working in the same sphere of activity, and you cannot make a pattern without I bring the stuff to you. . . . And although I am a transport worker I should get the same wages as you claim. I want to live" (Industrial Council Enquiry into Industrial Agreements, Minutes of Evidence, qq. 7865 and 7857, 1912).

particular industry, might force wage standards down, prosperity would certainly tend to lift them up; but such movements were gradual, and confined within narrow limits. Collective agreements of the time illustrate this. In the exceptionally fluctuating industry of shipbuilding, for example, a standing agreement provided that no general change in wages should be made unless six months had elapsed since the last change, and no change should exceed 5 per cent. on piece rates or one shilling a week or a farthing an hour on time work. In the engineering industry wages were fixed by district agreements for terms of three or five years. In the Brooklands Agreement which governed wages in the cotton-spinning industry for seventeen years, there was a similar provision restricting changes in rates to a maximum of 5 per cent. at intervals of not less than a year, and in 1910 rates were fixed for five years, and the interval that must elapse between any two general changes extended to two years. If we seek an explanation of these wage standards, we can find it only by an historical investigation; but, however and whenever established, they were stable compared with the prices of commodities, they tended to move together and to preserve stable ratios between them, and they may fairly be said to have constituted a system. Certain trades were outside the system—trades that were too ill-organised to maintain any standards, or too new and experimental to have established standards; but the greater part of the field of industrial wage-employment fell within it.

If the standard and customary rates provided a basis for order in industry, the maintenance of order on this basis was possible, because economic change was gradual and seldom catastrophic. Adjustment in the system of rates and conditions was continuous but slight. A new industry had to attract labour by bidding up the price of the classes or grades of labour it wanted; a declining industry might keep itself alive for a time by cutting wage standards and foregoing profits. The continuous change that industry has to adjust itself to in markets, in technical methods and materials, in competitive and other commercial conditions, was met, partly by slight changes in wages, partly by un-

employment and short time or overtime; but the changes were seldom great enough to revolutionise the position of a class of workers, or to modify seriously the relation it bore to other classes.

An important influence that assisted in the maintenance of peace was the fact that this adjustment of wages to economic change was led and largely controlled by collective bargaining. Although in law terms of employment were settled by a multitude of private contracts between individuals, in economic fact they were arranged *for* employers and workpeople, not *by* them, being settled in quasi-public negotiations between representatives of the two parties. Trade unions, it is true, though growing, included only a minority of wage-earners; but their influence was powerful enough to set standards to which unorganised firms in their own trades conformed,* and to lead changes to which the unorganised trades, by a sort of tacit collective bargaining, followed suit. The ratios between the wages in different occupations often had a customary authority stronger than that of the actual wage standard of any one occupation; if therefore an organised class or grade in any industry succeeded in forcing up its wage, employers would find themselves forced to raise the rates of other grades if they wanted to keep their labour. The ordinary line of argument in wage negotiations was to compare wages with profits, cost of living and other commercial factors since the last change, and then with wages in other trades; thus, collective bargaining, just because it involved argument, ensured a *co-*

* *Cf.* Royal Commission on Labour, Final Report, 1894, § 133: "It may, however, be added that although institutions of conciliation and arbitration have not been brought to a very high pitch of development in a large proportion of trades, the evidence shows that in matters of standards of wages and hours, one organised body of employers and workmen taking counsel together affect a larger area than that of their own district, or even their own trade. Instances were given of districts and works which, while not belonging to any organised institution for conciliation themselves, make it their rule to follow the decisions of such an institution in their trade with regard to general wage-rates and similar matters. This indirect influence seems to be especially strong in the case of trades which regulate their wage-rate by means of a sliding scale supervised by a representative joint board."

ordinated adjustment of wages in different industries to economic change.

A good deal of the credit for the comparative peace that industry enjoyed before the war must be attributed to a procedure which placed the responsibility for settling wages entirely on the shoulders of the parties to the wage bargain. To assist them in discharging this responsibility they had gradually built up a network of conciliation machinery and collective agreements governing procedure, which ensured that no change would take place without adequate or at any rate lengthy discussion. There were gaps in this network; the railway companies refused to negotiate with the trade unions of their employees until just before the war, but had special machinery; agriculture had no regular machinery or procedure until 1917; but the gaps were being filled up, and an extension of the network, of great immediate and even greater potential importance, was secured by the Trade Boards (Minimum Wage) Act of 1909, which established representative machinery for determining minimum rates in low-paid and ill-organised trades, and provided for State enforcement of the determinations reached. Apart from this new development, the function of the State was practically confined to assisting by conciliation, supplementing by arbitration, and supporting by the Fair Wages Clause in public contracts, the collective bargaining which the parties in industry had spontaneously organised.

We cannot, however, attribute this pre-war peace entirely to the fitness of the machinery for settling wages to the problems of the time. The working of the machinery was materially assisted by the steady increase in wealth, due to the increasing productivity of industry, which made it possible to concede demands for wage increases without injuring industry. The world was at peace, new countries were developing rapidly, international trade was expanding, technical invention was cumulative, capital was increasing, the quality of the population was probably improving with better education and greater care of physique. Hence any mistake in fixing a wage-rate too high, even if the immediate effect was some unemployment, was corrected before long

by the growth in the wealth of society, which made it possible to absorb the displaced workers without reducing wages. Some trades—for example, the compositors—show a continuous advance in wage-rates, without any setback, for over half a century.

To sum up, the pre-war problem of industrial relations was the limited problem of adapting an established system of wage standards and terms of employment by piecemeal adjustments to slowly changing needs and conditions; the pre-war solution was to make these adjustments in each industry with some regard to related and associated industries, mainly through the machinery of collective bargaining between trade unions and employers. Even before the war, however, this working solution was beginning to work badly. It was becoming inadequate, because its basis was being undermined; and the new conditions of the post-war problem were appearing. It remains to examine this pre-war change.

IV.—Signs of Change.

There is clear evidence of a change in our index, the number and duration of stoppages, summarised in the following table:

	Average Annual Number of Stoppages.	*Average Annual Duration in Million days.*
1902–1909	456	3·6
1910–1913	947	18

This growth in the number of disputes was accompanied by a growing volume of criticism of the economic order, of which the rise to importance of the political Labour Party is another indication. The explanation of the change will be obvious in the light of the preceding analysis; it is simply that the increase in the rate and extent of economic change, to which wages and conditions had to be adjusted, put a strain on the organisation for making adjustments, and undermined the basis—a stable system of wage-rates—on which the organisation rested.

The most important influence making for change was the general rise in prices. According to the Board of Trade Index Number, which took prices in 1900 as 100, prices rose from

88·2 in 1896 to 116·5 in 1913, or about a third. This rise had a double effect: it called for some adjustment of wages to compensate for it, and adjustment was hampered by long-term agreements and the lack of plasticity in customary rates; and it irritated the wage-earner, who felt, without understanding why, that his wage did not go so far, while he saw trade expanding and profits soaring. On the average wages rose as much as other incomes; the reconciliation of this average rise with the lag in particular wage-rates is found in the shift of labour from the lower to higher paid occupations. Compensation of this kind aggravated rather than allayed discontent, since it resulted in a disturbance of the customary relations of wages in different trades; the influx into building and engineering, tending to check in them the rise that would otherwise have occurred, and the efflux from agriculture, compelling a more rapid rise than would have been secured if there had been no such shift.

The dislocation of customary relations went further, and the stable basis of the system of wages was undermined, because there were great inequalities in the bargaining strength of labour in different parts of the industrial field. Trade unionism was strong in relatively few industries; the aggregate membership in 1911 was only three million. Even in organised industries its strength varied from grade to grade and from district to district; as is shown, for example, by the fact that the Amalgamated Society of Engineers recognised thirty-three standard rates for fitters, varying from 24s. in Redruth to 46s. in Grays. Hence the rate at which, and the extent to which, wages were adjusted to the change in the price level varied from trade to trade and district to district, and the influence of trade union organisation in determining wages tended to become greater than the influence of custom.

This tendency was strengthened by certain developments in the field of labour organisation, that culminated in the years immediately preceding the war. We might expect " essential " industries to be well organised and highly paid; actually they were, at the end of the nineteenth century, relatively ill-organised and lowly paid. Even coal-mining showed an average wage of only 6s. 7d. a shift in November,

1913, and the miners did not create a national organisation until 1908. On the railways wages were much lower; the unions did not secure recognition until 1913, and attained their present degree of unity only in 1912. Transport organisation was just becoming effective, but was hampered by the casual nature of dock employment. Some re-adjustment of wage-rates would inevitably have followed these developments in bargaining strength, even if there had been no war. It might have been effected without disturbance, if the increase in wealth had continued without interruption; but the war intervened. The establishment of Trade Boards equally involved an exceptional advance for workers in the lower-paid occupations that they covered. A subordinate influence, tending in the same direction of increased use of bargaining strength, was the release of trade union activity from the check, imposed by the Taff Vale Judgment at the beginning of the century, by the Trade Disputes Act of 1906; the average number of disputes in the three years preceding 1906 was 366, involving on an average 99,000 workpeople, compared with 479, involving 244,000 persons, in the three years following 1906. A major influence, which it is not possible to measure or even illustrate, but which it would be an error to under-estimate, was the growing democratic and egalitarian sentiment, due to the political reforms of the nineteenth century and the spread of education. From some points of view strikes are a sign of progress.

To sum up—taken together, these changes in the general economic situation, reacting upon a very unevenly organised wage-earning class, tended to sap and disintegrate the whole system of stable related wage standards. Once started, it was difficult to stop change, since the habit of bargaining spread; and the further bargaining spread at the expense of a passive acceptance of custom, the more difficult it became to control and co-ordinate further change. The problem of industrial relations becomes almost insoluble if, every time a contract of wages and related conditions is negotiated, each party sets itself to exploit every element in the commercial situation and in its own resources in order to exact the maximum that the other party can possibly concede. Without going so far as this, the trade unions

were compelled by the rise in prices and the existing wage-rates to question the existing order, and, having once begun, tended naturally to go on and to press further claims. The essential change, it seems to me, was a shift of wages from a basis of custom to a basis of bargaining strength; labour was copying "its betters," the keen business man of whose motives the legendary "economic man" is a parody. In 1914 this disturbance and change had not proceeded far. Its importance for our present purpose is that the chief effect of the war was to intensify it, and to compel a further shift from custom to bargaining until the pre-war customary basis was almost lost. In this, as in other matters, the war closed an epoch. The Royal Commission on Labour in 1894 took an optimistic view of the extension of organised collective bargaining:

"just as a modern war between two great European States, costly though it is, seems to represent a higher stage of civilisation than the incessant local fights and border raids which occur in times or places where Governments are less strong and centralised, so, on the whole, an occasional great conflict, breaking in upon years of peace, seems to be preferable to continued local bickerings, stoppages of work, and petty conflicts."*

More recent experience would lead many of us to take a less complacent view either of the civilisation that expresses itself in European wars or of the industrial policy that seeks its end by national strikes and lock-outs.

* Final Report, § 92.

II

GOVERNMENT CONTROL OF WAGES IN WAR-TIME*

I.—The First Phase: "Business as Usual."

Among the minor revolutions that the war brought about in England was an almost complete reversal of the traditional attitude of Government to wages. Before the war Governments were careful never to fix a wage-rate. Cabinet, Parliament, and the Administrative Departments alike left wages to be settled by the parties to the wage contract without official control or direction. Indirectly, by legalising trade-union activities, Parliament had encouraged the settlement of wages by collective rather than individual bargaining. This process it assisted further by the conciliatory activities of the Board of Trade, a Fair Wages Clause in all public contracts, and, since 1909, by the establishment of Trade Boards in a limited number of trades in which wages were exceptionally low, which in effect made collective bargaining compulsory. But the actual fixing of rates, whether by Act of Parliament or by administrative Order, had always been avoided. At the end of the war Government was fixing the rates of wages for large numbers of workers directly by administrative Order; it was controlling, or attempting to control, the rates of large numbers of others by compelling them to accept the determinations of official arbitration authorities; altogether a majority of the wage-earning population had their wages fixed by Government in one or other of these ways. The change of policy was unintended and unexpected; it has been reversed; but its

* Based on a public lecture delivered in the London School of Economics on October 18, 1923. The authority for all statements of fact will be found in Parts I. and II. of Vol. V. of the *Official History of the Ministry of Munitions*, which were prepared by Miss C. Violet Butler and the present writer under the editorship of Mr. G. I. H. Lloyd. This *History*, though not published for sale, was placed in the principal libraries of the country.

effects are still of influence. What I wish to do in this lecture is to show briefly how the change came about, what were its results, and what are the conclusions it points to, if we apply these results to the general problem of State regulation of wages.

The economic and administrative history of the war passed through several distinct phases. The first was characterised by the phrase "Business as usual." In the field of labour policy this implies that wages were to be fixed voluntarily by the usual procedure; any unusual claims that the wage-earners had on the Government, by virtue of the great extension of Government work, were met automatically by the insertion of the Fair Wages Clause in all munitions contracts. The Government had more than enough to attend to without making excursions into new fields of labour policy. At the same time, in the interests of munitions output, industrial peace was essential; but Government action, so it was thought, was rendered unnecessary by the spontaneous undertaking of the leaders of organised labour. At a joint meeting of the Parliamentary Committee of the Trades Union Congress, the Management Committee of the General Federation of Trade Unions, and the Executive Committee of the Labour Party on August 25, following the outbreak of war, it was resolved

"That an immediate effort be made to terminate all existing trade disputes whether strikes or lock-outs, and whenever new points of difficulty arise during the war period, a serious attempt should be made by all concerned to reach an amicable settlement before resorting to a strike or lock-out."

That the leaders were accurately interpreting the feelings of the rank and file is shown by the decline in the number of stoppages, from about 100 at the beginning of August to twenty at the end of the month, and to ten by the beginning of 1915.

"Business as usual" proved to be an impossible policy; and the first phase of the history was the gradual, though reluctant, realisation that it was impossible. The Government, against its will, was forced to intervene in disputes

between employers and workpeople; employers' associations and trade unions, much against their will, were forced to call in the Government. There were a number of reasons for this. The earliest important strike, that of the Clyde engineers in February, 1915, illustrates the first. The Clyde District of the Amalgamated Society of Engineers had decided, before war broke out, to demand an advance of 2d. an hour, when their existing three years' agreement terminated in January, 1915. They presented their demand in December, making no modification in it on account of the rise in the cost of living subsequent to the outbreak of war; the employers delayed their answer, and then offered ¼d., an offer increased subsequently to ½d. and later to ¾d. The men's patience gave way in February, and an unofficial strike broke out. The dispute was only the most important of a larger number, arising out of claims outstanding when war broke out, which were certain to cause trouble, if the industrial truce was used, as it was used, as an excuse for refusing any change at all in wages or conditions.

Even if there had been no differences outstanding, differences would have arisen and would have presented difficulties of solution that would strain the machinery of conciliation. The war caused rapid economic change, and altered all the conditions on which wages rested. Food prices rose 10 per cent. by September, 16 per cent by December, 22 per cent. by February, 34 per cent. by the end of the first year of war; an equivalent change in the cost of living before the war was spread over a generation. The capacity of industry to meet the demands for wage advances that were naturally presented was also affected by the war; firms, and districts, engaged on civilian work lost contracts, or took on contracts at lower price levels to keep works going; armament firms, on the other hand, and firms that could adapt themselves promptly to the armament demand, could not execute the contracts that were showered on them, and, to attract labour, raised rates of wages spontaneously. Thus unprecedented divergences rapidly developed between rates and earnings in different districts, and within the same district between different firms, and even individual workpeople in the same trade.

The needs of munitions output affected wages, not only by making stoppages undesirable and adjustments in existing rates necessary, but also before long by creating new classes of work, for which new rates had to be established. The need for output, coupled with the scarcity of fully-skilled operatives, led to the demand for "dilution," the substitution of unskilled labour on jobs, or parts of jobs, hitherto reserved for skilled men, and for the redistribution and more economical use of the skilled men themselves. Now the control of wages by voluntary collective bargaining, while it had served to bring about the continuous adjustment of wages to changing conditions before the war, was ill-adapted to dealing with changes so rapid and extensive as war brought with it, especially when the ultimate sanction of the strike was eliminated. The number of unions involved was great; a large engineering firm m ght regularly have to deal with more than twenty; and the extent of joint action between the unions was limited. The number of consultations to be made and bargains to be struck was increased by the practice of negotiating changes in the district rather than nationally—a practice that led also to variation in the amount and t.me of advances in different parts of the country. The process of dealing with a disputed question in the engineering industry, by reference from the works to a local conference and from local conference to central conference, although justified in ordinary times as a method of securing due consideration and avoiding stoppages, was slow in itself, and the channels became clogged when differences came up in the numbers that the disturbance of war provoked. The constitutional relations of the spokesmen and rank and file of trade unionism were imperfect; the leaders were reluctant to commit the unions on important issues, and usually debarred by constitution from so doing; yet the problems with which they found themselves faced called for prompt decision. No general change could be introduced without the consent of the unions; yet the unions were not only slow to move, but did not include large numbers of workers, who were ready enough to seize the opportunities of more remunerative work that the war offered.

II.—The Munitions of War Act.

The high hopes that the industrial truce had excited, of peaceful settlement of all industrial questions by spontaneous agreement, could not be realised. Agreements limped too slowly after the need of adjustment; impatience and a sense of injustice led to stoppages, which found local unofficial leaders, when the constitutional leaders of the unions adhered to the spirit of truce. The reorganisation of industry to meet the needs of increased munitions output was held up, the trade union leaders in conference arguing that there were ample supplies of skilled labour if only it were made available by lodging allowances and other inducements to take up munitions work. Early in February, 1915, the Government decided to go beyond the informal consultations to which it had hitherto restricted itself. A Committee on Production, consisting of the Chief Industrial Commissioner and representatives of the Admiralty and War Office, was appointed

"to enquire and report forthwith, after consultation with the representatives of employers and workmen, as to the best steps to be taken to ensure that the productive powers of the employees in engineering and shipbuilding establishments working for Government purposes shall be made fully available so as to meet the needs of the nation in the present emergency."

The reports of the Committee on Production shaped the policy, to which the assent of the trade unions was obtained at the Treasury Conference of March 17, and which was embodied four months later in the first Munitions of War Act. It was of the nature of a bargain, the Government being interested solely in output, the unions in safeguarding wages. To meet the Government the unions agreed to a suspension on munitions work of the right to strike; it was made clear that they could still make demands for advances, provided that they did not seek to enforce them by a stoppage of work. They agreed also to suspend all customary practices restrictive of output. As a substitute for the strike (or lock-out), as the last resort in a deadlock, they accepted

arbitration. In return, the Government undertook to require from contractors the maintenance of the rate of wages for any job, when skilled labour was substituted by unskilled or semi-skilled, and the restoration after the war of any trade practices or customs suspended in the interest of munitions output. As a result of a further conference with the Amalgamated Society of Engineers the Government also undertook to limit profits on munitions work, so that any sacrifices made by the unions should be for the benefit of the country, and not of the shareholders of firms engaged on munitions production.

The agreement was an attempt to remove the fear of the wage-earner, that the standard rates on which his economic security rested, and the rules and customs governing the allocation of work by which those rates were buttressed, would be undermined; and, by removing this fear, to remove the obstacle to a rapid reorganisation of industry to suit the new kind of output required. Apart from guaranteeing existing rates, no attempt was made to elaborate principles in accordance with which trade practices should be modified and wages adjusted. Reliance was placed on collective bargaining, with resort to arbitration, to make all necessary adjustments, and on the guarantee of the restoration of suspended practices to safeguard the permanent interests of the skilled man. The agreement amounted to a procedure rather than a policy, a procedure that would put a limit to the interminable discussion, which, in the absence of strikes, had characterised previous negotiations, and submit to final arbitration any question on which employers and unions could not agree. The Committee on Production, which had devised the procedure, was itself constituted the principal arbitrating authority.

It was one thing to convince and secure the assent of the trade-union leaders to the new policy, it was another to overcome the almost instinctive resistance of the rank and file of skilled workers to anything that threatened their established position. The bargain did not bring the expected acceleration in the reorganisation of methods of utilising labour, a reorganisation that became urgent as the munitions programme expanded. Nor did the undertaking to accept

arbitration prevent dissatisfied workers from threatening and actually resorting to stoppages, to secure attention to their grievances. It became necessary to supplement the moral authority of an appeal from the Government, on which the Committee on Production had relied, by legislative compulsion. This was imposed by the first Munitions of War Act passed in July, 1915.

The Act embodied the " bargain " made at the Treasury Conference. It made strikes and lock-outs upon munitions work illegal, unless the difference had been reported to the Board of Trade, and the Board had not within twenty-one days referred it for arbitration. The Board might refer a difference to the existing agencies for collective bargaining in the trade, to a single arbitrator, a special court, or the Committee on Production; in any case, the award would be binding on both parties. The restriction on stoppages might be extended by proclamation from munitions work to other industries " on the ground that in the opinion of His Majesty the existence or continuance of the difference is directly or indirectly prejudicial to the manufacture, transport or supply of Munitions of War "; but such an extension was not to be made if the Minister was satisfied that effective means existed in any industry to secure a settlement without stoppage—a concession to the unions in the coal and cotton industries, which had refused to accept compulsory arbitration at the Treasury Conference, on the ground that their own machinery for settling disputes was adequate. For the enforcement of more detailed regulations a class of Controlled Establishments was created. In firms to which this provision was applied, profits were to be limited, practices restrictive of output were made illegal, works rules were given binding force, and the proprietors were bound by Schedule II., which embodied the provisions of the Treasury Agreement guaranteeing rates and the restoration after the war of suspended practices.

Two other provisions in the Act, incidental to or supplementary to the regulation of wages, require notice. Section 4 (2) provided that no change in wages or salaries could be made in a Controlled Establishment without the consent of the Minister of Munitions. The object was to prevent the

evasion of the limitation imposed upon profits by the payment of undue advances to members of the firm and employees they wished to favour. Although drawn in apparently wide terms, it was restricted in its effect by a number of limitations. It did not apply to advances that followed on collective agreements or awards, and gave effect to the Fair Wages Clause; it was possible when consent was withheld to refer the proposal to arbitration as a difference; in practice consent was not required in the case of advances affecting only individuals in receipt of less than £250 a year; and the provision did nothing to prevent the payment of rates above the standard or district rate to labour taken on for the first time. At the same time the provision had its importance. In addition to serving the main object of preventing the dissipation of profits in inflated salaries, it enabled the Ministry to keep in touch with the proposals of employers and to confine advances, as they spread to the less organised trades, within the limits set by the agreements of the big unions and the awards of the Committee on Production. It was also used, for a purpose that was probably never intended, to check the cutting of prices on piecework. It was alleged with much force that one obstacle to the extension of systems of payment by results was the practice of employers to cut rates that yielded much above the average earnings of the class to which a worker belonged; the Minister undertook in his speech to the Trade Union Congress in Bristol to stop this, and a press notice was issued in September, 1915, calling attention to the need of the Minister's consent to any change of wages in a Controlled Establishment, and announcing that the Minister was prepared to use his powers to prevent the reduction of piece-rates as a consequence of the increase of output due to suspension of restrictions. The disconcerting results of this pledge will be referred to later.

The other provisions that affected wages did so only indirectly, but very materially. Section 7 made it illegal to engage a workman, who had been engaged on munitions work in an establishment to which this clause was applied, within six weeks of his leaving such employment, without a certificate from his late employer that he left work with

his consent, or alternatively a certificate from a Munitions Tribunal that consent had been unreasonably withheld. The object of the clause, as explained by the Minister to Parliament, was partly disciplinary; it was impossible to maintain discipline in a works, if any discontented worker was free to leave at short notice with the assurance of being welcomed by some other employer; and partly to check "labour stealing," the practice of inducing another employer's workpeople to leave him for higher wages, with the result that there was constant movement of labour and consequent interruption of output. Section 10, which amended a section of an earlier, Defence of the Realm, Act, empowered the Minister to regulate or restrict the carrying on of work, the supply of materials, and the engagement or employment of any class of workman. It represented an earlier policy of attempting to stop the poaching of labour by restraining the poacher; it was not used until the end of the war, when it was used to "ration" skilled labour; but it was relied on by the Ministry, when Section 7 was repealed, to restrain the movement of labour. Like the prohibition of strikes, these restrictions on the free movement of labour were part of a policy of removing obstacles to output; taken with that prohibition, they deprived workpeople of the normal means of protecting wages and securing advances. The unions urged, and the Government subsequently admitted, that they placed a corresponding obligation on the Ministry to safeguard wages—at any rate, the wages of women munition workers. At first, however, it was the disciplinary effects of the restrictions that made them unpopular. It was only as the cost of living rose and a marked divergence appeared between earnings on systems of payment by results and time wages, that the inability to move was felt as a serious hardship. By that time, however, it had become clear that the Government's power to control wages depended upon some such restrictions upon the free movement of labour.

The enforcement of this and subsequent amending Acts was entrusted to special Munitions Tribunals, modelled on the Courts of Referees established to deal with cases of disputed benefit under the Unemployment Insurance Act, consisting of a chairman, usually a lawyer, and two assessors,

one drawn from a panel of employers, the other from a panel of workmen. The Act left much to the discretion of these courts—for example, the question whether works rules were reasonable and whether an employer's consent to a workman to leave had been unreasonably withheld; they were charged with the delicate task of enforcing by penalties industrial discipline; that they succeeded in administering the Acts, and usually reached unanimous decisions, was evidence of the value and potentialities of a specialised industrial court so constituted.

The passing of the first Munitions of War Act may be taken as closing the first phase in the economic history of the war. Until then the Government had refused any responsibility for wages; by that Act it was committed to an interference, which grew, by an inevitable sequence, into almost complete responsibility. It had approached wage questions not as such, but as problems incidental to labour supply. The Government stated its needs and left employers and trade unions to devise in negotiation ways of satisfying them. When it was forced to intervene, it still confined itself to imposing only those limitations that were needed in the interests of supply. The policy embodied in the Treasury Agreement and the first Act was a policy of reliance on the ordinary machinery of collective bargaining; where innovations were necessary, they were to be confined to the duration of the war by a guarantee of restoration of suspended practices and the payment to substitutes of the rates previously received by the men substituted; the only important innovation was the removal of the ordinary incentive to compromise a difference—the possibility of a stoppage—and the substitution of arbitration. The Government was far too much preoccupied with other work to seek a new sphere of activity in wages control. Throughout the war it was a difficulty in the way of satisfactory industrial relations that the Government was preoccupied with military problems and questions of supply, while the wage-earner, on whose goodwill in the last resort supplies depended, could not realise that anything was so important as his standard rate and the union regulations by which he defended it. Hence constant cross-purposes: suspicion on the part

of workpeople that the Government was playing into the hands of the employers and seeking to undermine their position, resentment on the part of the Government that organised labour showed no more regard for the needs of the war and the difficulties of the Government.

III.—The Extension of Control.

The Government's objects were not attained by the passing of the Munitions of War Act. The extension of women's employment, which was the chief need of the moment, was helped little, if at all, and Schedule II., embodying the Treasury Agreement, at once became the subject of disputes arising from conflicting interpretations. Moreover, the representatives of the women's unions, who had not been consulted in the previous negotiations, began to press for the enforcement of a minimum time-wage for women munition workers. In September the Minister of Munitions set up a committee, consisting of representatives of the employers' organisations and trade unions, to advise him on the dilution and transfer of skilled labour. As in the negotiations that led to the Treasury Agreement, an appeal by the Government for increased output was translated into a treaty for the protection of wages. The Committee took the view that the root of the opposition to dilution was the fear that it might adversely affect wages, and sought to dispel that fear by direct regulation of wages. They therefore drew up a series of recommendations for the payment of women on "men's work," based on Schedule II. of the Act, and, when that had been presented, similar recommendations for the payment of women on work in which they were not substituted for skilled men. Schedule II. had stated merely that "the relaxation of existing demarcation restrictions or admission of semi-skilled or female labour shall not affect adversely the rates customarily paid for the job." L2, the circular in which the committee's recommendations were embodied, provided that women employed on "work customarily done by fully skilled tradesmen" should be paid the time-rate of such tradesmen; other women on time-work should be paid £1 a week; where women were on piecework or premium

bonus, they should be paid on the piece-rates or basis times " customarily paid to men on the job "; it provided also an answer to various incidental questions that the payment of wage raises. A national conference of unions on November 30 demanded the acceptance of these recommendations by the Government, and the Amalgamated Society of Engineers, at a conference on December 30, demanded the extension of wage control to women not on " men's work " and certain other amendments to the Government's proposals, as a condition of the co-operation in dilution which they had promised the previous March.

The Minister's first reply to the recommendations was that he had no statutory power to make them binding upon employers; he would, however, issue them as recommendations and act on them in the factories under his immediate control. In response to the trade-union appeals he undertook to take power, in an amending Bill, which he was introducing in Parliament for another object, to regulate by Order the wages of women on " men's work," and subsequently agreed to extend this to cover women on " women's work " and unskilled men on skilled work.

This development of policy was rendered necessary by the increase in the number of women employed on munition work. The Fair Wages Clause in their employers' contracts was no protection to these, since the work that most of them were doing was novel, and no standard rates and conditions existed, even if the women had been well enough organised to insist on them. The Leaving Certificate was an obstacle in the way of their improving their position and forcing up rates by moving to the highest bidder for their labour; and Schedule II. of the principal Act was too general in its terms and too limited in its reference to afford even employers, who were anxious to be fair both to the women themselves and the men they were replacing, the guidance that they sought.

At the same time the reluctance of the Minister to make this new departure was natural. The fixing of wages by administrative Order was inconsistent with the policy of relying on the ordinary machinery of collective bargaining. In theory, if not in practice, the women could appeal to

arbitration, if they were dissatisfied with their wages, and the arbitrator, since his decision was the substitute for the arbitrament of a stoppage, must be free to base his award on his view of the claims put before him. Such awards might conflict with wage Orders, issued by an administrative department and necessarily dictated by the requirements of the department's policy. However, the practical needs of the situation over-rode these theoretical objections, and the necessary powers were taken by the Munitions of War (Amendment) Act of January, 1916. An attempt was made to reconcile the alternative principles of fixing wages by free arbitration and fixing them by administrative Order by providing a Special Arbitration Tribunal, to which differences relating to the wages of women should be referred, and which the Minister himself could consult as to any directions he should give about wages.

The departure from the principle of spontaneous collective bargaining was probably inevitable in the case of women workers, since they were not organised for the settlement of wages by that method. A much more serious breach was made about the same time in the case of the men, who might conceivably have been left to manage their own wage problems. This was done by the Cabinet's embargo on further wage advances. The Committee on Production, in its capacity of supreme arbitration authority, by September, 1915, had completed a cycle of advances in the engineering and allied trades. The applications came up on separate district demands, and then only if the usual negotiations in district and central conference had failed. In most cases agreement was reached without arbitration, but in either case the usual amount of the advance was 4s. a week on time-rates, or 10 per cent. on piece-rates, or an amount that would bring an earlier smaller advance up to those amounts. A new cycle of demands was now beginning. These were refused by the employers, and referred to the Committee on Production, who heard them with the same attention and in the same detail as previous applications, but refused them all. The reason was revealed two months later, when a minute of the Cabinet was published, which had been communicated to the Committee on Production

in November. After referring to the need for economy and the advances that had already been made, the Government stated that they had come to the conclusion

"that in view of the present emergency any further advances of wages (other than advances following automatically from existing agreements) should be strictly confined to the adjustment of local conditions, where such adjustments are proved to be necessary."

The Committee respected the Cabinet's wishes for seven months, in spite of growing discontent among the workers. Advances were granted in districts and to classes of workers who had received less than 4s. or 10 per cent. in 1915, to bring them up to that level. After a deputation from the unions to the President of the Board of Trade on June 22, 1916, which demanded either that prices should be reduced or the embargo on wages raised, the Committee began a new cycle of advances, although no public announcement was made of any change of policy.

The effect of the embargo was to end the pretence of free bargaining, and so to destroy the policy of leaving wages to be settled without Government direction, on which the Government had acted up to that time. Compulsory arbitration had been substituted for the right to strike in the last resort; but awards dictated by the Cabinet on considerations of financial economy were not arbitration. The trade-union leaders perceived the change quite clearly, and denounced it in phrases that recall the constitutional controversies of the early seventeenth century. "It was a big fight," said Mr. Wilkie of the Shipwrights Society, in one of the unsuccessful appeals to the Committee, "to get the workmen to agree to arbitration. . . . Some of us have been fighting for reason to settle these matters instead of force all our lives. . . . Our men are skilled artisans who understand the thing just as well as we do here, and they are strong up against this action of the Government, which is reducing arbitration before you to a farce. This is a point I want to press. . . . The Committee on Production should not be bound by the views of the Government. The men hold very strongly that the Government in itself has

no more right to override the Act of Parliament than any other citizen." The Committee on Production had for the time being ceased to exercise a judicial independence and to base its findings on the evidence and arguments put before it, and had become an instrument of the Government's administrative policy, imposing wage determinations on industry that were dictated by that policy. Arbitration, as a substitute for the strike and lock-out, was permanently discredited.

The embargo was a mistake for another reason as grave. It stopped the adjustment of wages to changing economic conditions, without doing anything to stop the changes in economic conditions themselves. The cost of living rose all the time the embargo was in force. The extension of systems of payment by results led to serious divergences between the earnings of skilled time-workers and semi-skilled repetition piece-workers. Women had to work long hours that undermined their health, because in no other way could they earn wages sufficient to meet their needs. Employers, in spite of taxation, were making—and spending—large profits that excited the resentment of their workpeople. None of these conditions, so adverse to good industrial relations, were modified by the merely negative policy of refusing advances. The Government's first wage policy had been to leave wages to adjust themselves to changes, so long as no stoppage resulted; the new policy was to stop the adjustment. If the first policy failed to prevent stoppages, *a fortiori* the second must fail.

IV.—The Committee on Production.

The resumption of advances in the summer of 1916 led to the third phase of policy, in which the Government took a general responsibility for wages, and endeavoured to work out a co-ordinated system of control. The new development came as a result of district applications, which went from district conference to central conference, and from central conference to the Committee on Production. At each stage in the procedure the same arguments and counter-arguments were detailed, the workpeople's spokesmen pointing to the

increased cost of living and the employers to earnings increased in much greater ratio than time-rates by piecework, overtime, and special bonuses; the end, in most cases, an award by the Committee on Production, in the set form adopted as early as March, 1915, of a "war advance, intended to assist in meeting the increased cost of living, to be recognised as due to, and dependent on, the existence of the abnormal conditions now prevailing in consequence of the war." After a meeting of the central conference of the Engineering Trades on October, 1916, at which demands from all twelve districts were refused, a new and more expeditious procedure was evolved with the aid of the Chief Industrial Commissioner. Existing agreements regulating negotiations for changes in wages were suspended for the duration of the war and such further period as might be agreed on; in place of them the Committee of Production should consider at four-monthly intervals what general alterations in wages, if any, were warranted by the abnormal conditions due to the war; the Committee's decision should be an award under the Munitions of War Act of national application; the only exception to such general consideration was the case of districts rated unduly low (or high) which the unions (or employers' federation) were permitted to submit to the Committees. With the agreement, when it was reported to the Government, was joined a memorandum in which the employers' federation and the unions asked that arrangements be made to enforce the Committee's awards under the new arrangement on all firms in the industry affected. The Government accepted this recommendation; the 1917 Amendment Act gave the Minister of Munitions power by Order to make an award, that was binding upon employers employing the majority of the persons engaged on munitions work in any trade or branch of a trade either generally or in a particular district, binding upon all or any other employers and persons so engaged, with any modifications needed to adapt it to the wider circumstances.

The lead of the engineering trade organisations was followed by other industries. By October, 1917, forty-eight unions had given their adhesion to the new arrangement. The Committee on Production thus got control of general

wage movements in industries affected by munitions demand. This power it used to regulate wages by reference to changes in the cost of living, levelling up where district inequalities survived, but otherwise granting uniform advances. A systematic policy of wage regulation was thus reached, towards which things had been tending ever since the Committee was first asked to act as an arbitrating authority. Broadly the aims of this policy were two—to preserve pre-war wage standards intact; and to add to the standard wage a war bonus calculated to cover the increase in the cost of living of the lowest regular grade, the labourer. From its earliest intervention in wage questions the Committee had insisted, with the concurrence of the trade-union leaders, that questions of trade custom, new agreements, and other permanent changes in industrial relations ought to be deferred until the war was over. In fact, it did not refuse to consider them, and a by-product of its activity was the removal of many anomalies and the elimination of many irrational survivals in connection with wages; but its chief work was the adjustment of wages to the great effect of the war, the increase in the cost of living; and its governing consideration was to disturb as little as possible pre-existing standards and the pre-existing relations between standards, on which the wage system was based; if it was successful in this aim, the elimination of the transient, though disturbing, influence of war, when peace came, would involve merely the removal of the war bonus. It was obviously a policy framed while it was still thought that the war would be of short duration.

The Committee had made 641 awards by the beginning of 1917, 1,451 by the end of the year, and 3,754 by the end of 1918. These did not supersede voluntary local settlements and adjustments of wages, especially in the less organised trades and outside the field of munitions production; but the influence of the Committee grew throughout the war, and the tendency was for voluntary settlements to follow the lines of the Committee's awards. This influence was strengthened when the system of periodical hearings and national awards was substituted for the normal methods of negotiation in 1917 in the chief munition trades. It was

supported by the Ministry of Munitions, which used its authority in sanctioning changes under Section 4 (2) of the original Munitions Act, to extend the Committee's decisions, and, after the Amendment Act of 1917 had made it possible, to make the Committee's awards binding on all the firms and workers in trades for which the Committee had given awards. It was supported in the same way by the single arbitrators, to whom the less important differences were referred by the Board of Trade (after 1917 the Ministry of Labour) under Part I. of the original Act. The only important area outside its direct or indirect influence was that of women's wages in munitions industry. These constituted a more or less self-contained system, the main lines of which were laid down by the Minister of Munitions' Wages Orders; but even in this independent area the movement of wages was kept parallel, and the control co-ordinated, with the movements initiated by the Committee, by the policy of the Minister of Munitions and of the Special Arbitration Tribunal which advised him and arbitrated on cases arising in this field. The movement of wages under this control is indicated by the cycles of advances awarded by the Committee, set out in the following table.

COMMITTEE ON PRODUCTION CYCLES OF ADVANCES.

	Approximate Dates Covered.	*Nature of Advance.*
1st cycle ..	February, 1915, to September, 1915	4s. on time-rates; 10 per cent. on piece-rates.
2nd cycle ..	May, 1916, to November, 1916	3s. on time-rates only.
3rd cycle ..	April 1917 (National Agreement)	5s. to time- and piece-workers.
4th cycle ..	August, 1917 (National Agreement)	3s. to time- and piece-workers.
5th cycle ..	December, 1917 (National Agreement)	5s. to time- and piece-workers.
6th cycle ..	June, 1918 (National Agreement)	3s. 6d. to time- and piece-workers.
7th cycle ..	November, 1918 (National Agreement)	5s. to time- and piece-workers.

V.—Difficulties of Control.

Thus by the beginning of 1917 a logical and practical policy had been worked out for the control of wages. But by that time the war had exercised its dislocating influences for two and a half years; and the policy, which might have attained its object, and might have saved a world of trouble after the war, if it had been put into force by the beginning of 1915, had obstacles to overcome, which it never succeeded in overcoming. The policy assumed the basis of pre-war rates, which it sought to preserve intact; by the end of the first year of war—indeed, by the end of 1914—this basis had been seriously dislocated. In the engineering trades, for example, Sheffield had a shilling advance in October, 1914, following an advance of 2s. the previous March, and followed by a 4s. advance in March, 1915; while the Clyde, which had had no advance for over three years, received only 4s. in March. More important even than these divergent movements in district rates were the individual advances, special bonuses and remunerative piecework arrangements, granted to stimulate output and to secure skilled labour, before any Government control was imposed. A return prepared for the Minister of Munitions showed average increases, by September, 1915, when standard rates had risen by only 10 per cent., in weekly earnings in four large firms in Belfast, Lincoln and Weymouth, of 25 per cent., 40 per cent., 48 per cent. and 70½ per cent. respectively. In the Clyde shipbuilding industry about the same time the increase in earnings for different classes of tradesmen varied from 2 per cent., in the case of painters, to 43½ per cent., in the case of fitters, over the pre-war level. In a large Birmingham works, employing 212 tool-makers, whose average earnings in July, 1914, had been 38s., fifty-seven earned over £5 a week, thirty-four over £7 10s., and five over £10. Even after control had been imposed divergences appeared, since employers had every incentive to tempt labour by the offer of higher wages, and the control over advances which the Ministry could exercise was, as has been shown, very limited. The Leaving Certificate had been intended, and had operated, to check the movement of

labour after higher earnings; but it dealt only with the symptom, not with the cause of movement—the disparities in opportunities of earning.

An important cause of disparities in earnings was the action of the Government itself. Government departments, at the suggestion and with the encouragement of employers, had set themselves to promote the extension of the system of payment by results. The repetition nature of much of the new munitions work lent itself to this method of payment, and it was commonly thought that its adoption offered the strongest incentive to output. If payment by results, however, is to work smoothly and to secure uniform payment for uniform effort, very great care is needed in settling the basis, and, as a rule, a prolonged experience of the work for which payment is made is needed to give this basis. The hurry of war-time allowed no such careful consideration; moreover, since technical methods changed rapidly, a basis once set might soon need revision. Left to themselves employers would have met the difficulty by reducing rates that had by inadvertence been set too high; but this remedy had been stopped, with the object of reconciling Labour to the system, by the Government's pledge to prevent the cutting of piece-rates. Disconcerting variations in the earnings of individuals in the same industrial grade were, therefore, not uncommon. Even more disconcerting was the divergence that appeared between the earnings of time-workers, restricted to their pre-war rate and war bonus, and piece-workers earning larger amounts by purely repetition work requiring a lower level of skill. So much of the work called forth by the war was new in itself, that the pre-war set of wage-rates were inevitably inadequate to the needs of industry, and some divergences and variations were unavoidable.

A third influence was the nature of the administrative control that the Government exercised. The Ministry of Munitions was not the only department fixing wages, and not all departments co-operated so loyally with the Committee on Production. Two great industries in particular were outside the Ministry's sphere of influence. The building industry, depressed in the early part of the war, more than

made up for the falling-off in civilian demand by the increased demands upon it of Government departments. There was a shortage of building labour, and no Leaving Certificate to prevent the workmen from exploiting this shortage and the competition for their services. Building wages, therefore, broke away from the general control that the Committee on Production was able to exercise. Similarly the coal industry formed an independent system. The miners' unions had refused to sign the Treasury Agreement, on the ground that their existing conciliation machinery was adequate to keep the peace. They were not brought under the Munitions of War Acts, although the Acts could be, and in the unfortunate case of the Welsh miners in 1915 were, extended to them by proclamation. Employers and employed alike refused to submit their differences to the Committee on Production, and the Coal Controller acted independently of the Minister of Munitions and Minister of Labour. Hence advances in the mining industry were in some cases brought up to 29s. a week by the Coal Controller's award of September, 1917, at which time the war bonuses in the engineering and allied industries were only 15s.

The difficulties in the way of effectively carrying out the new policy will be apparent. Divergences from accustomed rates and relations had become marked before the policy of preventing them was instituted. While the restriction of advances to an amount needed to compensate for the increased cost of living would probably have had the general support of labour, if it had been applied uniformly at the outset, it only provoked discontent when it operated to prevent advances in some cases, which had been secured in others. The spectacle of the more fortunate classes and individuals excited envy, and was taken as a justification for using any opportunities that came of exploiting exceptional bargaining strength to exact corresponding gains. The chief obstacle to the use of bargaining strength in this way, and therefore the chief force which the Government could rely on to enforce its wage policy, was the Leaving Certificate provision in Section 7 of the first Munitions Act. This it became politically impossible to retain. The Minister became convinced of this in the negotiations with the trade

unions over the 1917 Amendment Bill, in which the unpopularity of the provision was used to block the extension of dilution to private work; he was supported in his opinion, against the protests of employers, supply departments, and his own Labour Regulation Department, by the findings of the Commission on Industrial Unrest, which inquired into the grievances that led to the widespread strike in the engineering industry in the spring of 1917. The Leaving Certificate had not prevented disconcerting variations in wage advances, but it had damped down their effects; the repeal of the provision deprived the Government of an essential means of enforcing its new policy. So far from settling the problem of wages control, therefore, the system of national awards instituted in 1917 only revealed it in its full difficulty. The Government's direct responsibility for wages could no longer be disguised, and the difficulties of controlling wages in the face of the divergences and anomalies that had already arisen are the theme of the remaining year and a half's history.

This will be a convenient place, before proceeding to recount these difficulties and the expedients to which they led, to notice a weakness in the position of the departments concerned with wages, which helps to explain both the failure to apply a systematic control before 1917 and the difficulty of enforcing such a control when it was attempted. This was the inadequate and unsystematic character of the statutory powers which the Departments possessed for this purpose. As we have seen, the Government had never sought to control wages, and the statutory powers assumed had been taken piecemeal, mainly for purposes other than wage-control, and never co-ordinated; yet the Ministry of Munitions, even in war-time, could do nothing for which it had not statutory authority. Thus the regulation of the wages of women by Order was confined to certain classes of establishment to which Section 7, the Leaving Certificate provision of the first Munitions Act, had been applied; the reason being that the protection of wages was regarded as the correlative of the restriction on freedom of movement. Section 7 applied to a list of establishments that differed from the list of Controlled Establishments to which the

conditions of the Treasury Agreement recited in Schedule II., the restriction on profits, and the correlative restriction on wage advances without sanction (under Section 4 [2]) applied. Both these lists again referred to a different, and in the main narrower, range of production than was covered by the definition of munitions work in Part I. of the original Act, which prohibited strikes and lock-outs. The decision in case of doubt, whether a particular group of workers or kind of work fell within one or another of these categories, rested not with the Minister, but with a Munitions Tribunal. This confusion was natural and, in a sense, inevitable. The Ministry's concern was output of munitions, therefore its powers were defined by reference to categories of product and firms; its powers were not related to classes of workers. The unfortunate result, however, was, that there might be in the same establishment men who came under the prohibition of strikes under Part I. and others who did not, and women who were subject, some of them to the " Men's Work " Orders, others to the " Women's Work " Orders, and others to no Orders at all. Only the obstacle presented by the need of a Leaving Certificate prevented movement from work in which wages were kept down by control to work in which wages were higher.

VI.—The 12½ Per Cent. Bonus to Skilled Time-workers.

The Spring of 1917 was taken up with negotiations over a new Munitions of War Amendment Act. The Minister had become convinced that the only way of meeting the growing shortage of labour was by extending dilution to private work. To do so would be to break a promise made at the second Treasury Conference; but conditions, which could not have been perceived then, had arisen, and the unions in the engineering and shipbuilding trades, with one exception, gave their consent at a conference in November, 1916. The exception, however, was the largest and most important union, the Amalgamated Society of Engineers, which refused to have anything to do with the negotiations. A Bill was introduced into Parliament early in 1917, empowering the Minister of Munitions to extend the provisions of the previous

Acts to private work. Its progress was delayed by the outbreak of strikes in all the important engineering centres in March and April; and, before it was brought up again in Parliament, an attempt was made to secure the unions' support.

The negotiations had the same issue as those that preceded the two previous Acts; the Minister's attempts to increase or economise the supply of labour for munitions resulted in a measure for protecting the wages of munitions workers. There were three stages. In the first the Minister sought to secure the extension of his powers, unimpaired, to private work by dealing simultaneously with the grievances which the unions brought forward; the Leaving Certificate provision was to be amended to permit movement where real hardship would be caused by preventing it; a new provision was drafted to safeguard piece-rates against being cut, an acceleration of arbitration hearings was promised, and additional guarantees were given of a restoration of suspended conditions after the war. But the unpopularity of the Leaving Certificate was too great, and in the second stage the Minister sought, while sacrificing the Leaving Certificate, to secure the extension of dilution in return, and the setting up of alternative safeguards against undue movement of labour. The compromise so reached, although accepted by the negotiators, was rejected on being submitted to a vote of the Amalgamated Society of Engineers. The repeal of the Leaving Certificate had been promised, and could not now be withheld; and the third stage was reached. In the Bill that became law, the Minister took power to withdraw the Leaving Certificate provision, and, as a safeguard against the most obvious danger, to fix by Order the wages of skilled time-workers, who might otherwise be tempted to seek better-paid repetition work.

The 12½ per cent. bonus to skilled time-workers, which was the unintended result of the Ministry's negotiations with the unions, received an attention quite disproportionate to its real importance.* It is, however, perhaps the clearest

* Mainly, perhaps, because a colleague in the Cabinet accused Mr. Churchill of "butting in" with the 12½ per cent. into the difficult task of adjusting wages to the cost of living. As is shown in the text, there was no justification for such a charge, and it was explained away the day after it was made.

example of the unfortunate results that followed from the divergence of wage relations from their pre-war basis. The grievance of the skilled time-worker, kept on time-wages because his work was too varied to be placed on any system of payment by results, and engaged often in assisting or supervising unskilled repetition workers, who earned on piece-rates more than he himself received, had been brought before the Ministry as early as 1915; but no remedy had been found. It was emphasised in the negotiations over the Amendment Bill in 1917, and in the reports of the Commission on Industrial Unrest, which enquired into the causes of the strikes in March and April of that year. The dissatisfaction was one of the chief reasons for the unions' agitation against the Leaving Certificate; yet the Leaving Certificate was the only means the Ministry possessed of keeping men to essential work, when they were tempted to leave it for less important but better-paid work. When he found himself unable to secure the unions' assent to any amended provision, Dr. Addison decided to repeal the provision. In making this decision he was acting against the advice of the employers and of his own labour department officials, who both pointed out the important purpose that the provision served; the former, however, said that they preferred repeal to amendment. His decision was based on broad considerations of public policy, the most important of which was the need of removing a most serious irritant in the relations of Government and labour, and it was reached before the reports of the Commission on Industrial Unrest were published to confirm it. Mr. Churchill, who inherited this decision, approved of it, and delayed acting on it only until he was supplied with the means of counteracting its anticipated effect on the skilled men. Having asked Parliament for powers to grant by Order a bonus to time-workers, he appointed a committee, representative of employers, trade unions, and the Government Departments interested, under the chairmanship of Mr. J. W. Hills, M.P., to report on skilled time-workers' rates in connection with the removal of Leaving Certificates. The employer members proposed to exclude from the bonus any workers who had been given the opportunity of working on payment

by results and had refused. The union representatives would not consider this proposal; they were upheld in their refusal by the Minister, and asked for a general advance to time-workers, which should be extended to piece-workers who were not on repetition work. Finally, the committee recommended a bonus of 10 to 15 per cent. on earnings without conditions to a limited class of skilled engineers, including engineers employed in shipbuilding; the employers and the Ministry of Labour representative did not sign the report.

If a bonus was to be given, it was necessary to decide to whom it should be given. The Ministry of Munitions drew up a carefully defined and restricted list, which it recommended. The chairman of the committee advocated a wider schedule of all skilled men in the engineering industry; the Ministry of Labour and the Chairman of the Committee on Production, who were opposed to the bonus on the ground that it would disturb existing wage relations and provoke further demands, preferred the wider schedule, if the bonus was given at all, as being easier to administer. A committee of the Cabinet decided in favour of the wider schedule, and a bonus of 12½ per cent. on earnings was awarded as from October 14 to all fully skilled time-workers in the engineering and foundry industries. On the following day the Order was issued abolishing Leaving Certificates.

The difficulties that had been predicted very quickly made themselves apparent. The line that had been drawn could not be defended. Almost immediately there was a demand for an extension of the bonus to skilled time-workers in the shipyards; a similar demand followed from unskilled time-workers, who were equally prevented from enjoying the advantages of piecework and had much less adequate time-wages than the skilled men. It proved impossible to resist these claims, and the bonus became a general time-workers' bonus in engineering and shipbuilding. Now, although the skilled time-workers' grievance was a real grievance, it is not to be inferred that time-workers in general were underpaid, nor that unduly high earnings were the rule on systems of payment by results. A general advance to time-workers, therefore, disturbed the general relation between time and

piece earnings, and led to a demand for a corresponding advance in piece-rates. By January, 1928, two alternatives were open to the Government. One was the course advocated by the Minister of Munitions, to stand by the original intention of the bonus, negotiate settlements trade by trade, and grant the bonus where a case was made for it; the other was to convert the bonus into a general advance, by granting the piece-workers' demands and so restoring the pre-existing relation between the two categories. The Cabinet adopted both alternatives, authorising the Minister of Munitions to continue the negotiations for the piecemeal extension of the bonus, and the Chief Industrial Commissioner, the following week, to award a 7½ per cent. bonus to piece-workers. Thus the wheel had swung full circle, and the relative positions of time-workers and piece-workers were restored; the Committee on Production recognised this, at its four-monthly hearing of claims in February, by refusing any increase in the general war-bonus.

The extent to which Government responsibility for wages had been carried, and the completeness of the departure from the theory of voluntary settlement, were illustrated incidentally by the award of the bonus to piece-workers. The largest employers' organisation wrote to ask by what authority the reward was made. There was, in fact, no statutory authority, since the 1917 Act, under which the 12½ per cent. bonus had been awarded, referred only to time-workers. The Cabinet's action was regularised by referring all claims from piece-workers to the Committee on Production, as differences under Part I. of the principal Act, and giving them the bonus as an award by the Committee.

VII.—Wages and Contract Prices.

The negotiations over the 12½ per cent. bonus usher in the final phase in the relations of Government to wages. Over a large part of the field of employment the Government was now actively interfering with wages, and the need for such interference was beyond question. Yet the problem was very intractable. The pre-war basis of wage-rates and relations had been very largely submerged; there were great

divergences between the gains which different classes and individuals had secured; and claims for further advances were being pressed on all sides. The universal shortage of labour, due to the needs of the army, made it difficult to resist such claims, if they were pressed by the threat of a withdrawal of labour, or even, in the case of individuals, by the threat to seek other employment. The difficulty of exercising effective control was increased by the piecemeal and disjointed nature of the statutory powers of the administrative departments, and by the lack of co-ordination between these departments; not the least of the obstacles to a uniform policy was the fact that the great contracting departments were active competitors for the same restricted supply of labour. The problem of co-ordination has been already referred to and will be discussed in more detail below; one other factor must be dealt with here, which made itself felt with its full force at this time and made the Government's responsibility for wages over the whole range of munitions production complete. This was the admission of the employer's right to pass on to the Government any increase in his costs due to an increase in wages.

As early as 1915 contractors had put forward claims for revision of contract prices on the ground that labour costs had been increased by Government action. The Treasury position was that there was a case for revision of contracts the terms of which were settled before war broke out, none on contracts placed after war broke out, when contractors could be expected to allow for war conditions; but in any consideration the contractor's work for the Government as a whole should be brought into account. This position was not maintained. In February, 1916, the Minister of the day, in connection with some negotiations with the chief armament firms for a reduction in shell prices, agreed to a clause in the new contract by which an allowance was made in the price for fluctuations in materials and wages. It was impossible to confine a concession of this importance either to a select list of firms or to a single type of product. Claims for similar treatment were pressed on the Ministry, and in the end conceded. Boards of Management were permitted to vary contract prices of shell in November, 1916; the con-

cession was extended to other stores in April, 1917, and to direct contractors in December, 1917. The method devised to give effect to the concession was to insert cost variation clauses in contracts; a schedule of fixed price equivalents to specified wage changes was drawn up, on the basis of an investigation of representative costings, for each category of store; so that the transmission of an increase in wages to the Government was made a matter of routine.

The result was a revolutionary change in the relations of employers and their wage-earners. The conflict of interests, of which strikes are a symptom, was no longer between employer and labour, but between labour and the employer's employer, the Government. The employer was reduced to the position of an agent, whose profit was independent of the wages he paid. He might, and the wiser employers did, bear in mind that he would not always be working for Government, and that wage standards established under war conditions would persist into peace; but he could no longer be relied on, as normally he can, to fight the consumer's battle and resist wage-claims that would involve an increase in prices. He had been transformed from a shock-absorber, placed between labour and the final consumer, into a shock-transmitter. The settlement of wages by voluntary agreement between employers and the representatives of the wage-earners would no longer serve; and, since this voluntary negotiation was the foundation on which the Government's policy had been based at the outbreak of war, a complete change of policy was called for. In fact, the implications of the change were never faced, except in confidential departmental memoranda, which were never acted on; the forms of normal peace-time negotiations were preserved, and the theory that wages were settled by employers and employed, with resort to the Committee on Production as an independent arbitrator, was never discarded. But in fact the normal control of wages had broken down, and no complete alternative system had been substituted for it. The consequences were seen in continual complaints from employers of labour-stealing, forced concessions to groups of wage-earners in a strong strategical position, and continuous negotiations over wages between

the Ministries of Munitions and Labour and the trade unions. Fortunately the sense of responsibility of the great employers' organisations and the restraint of the great mass of munition workers kept concessions and demands within limits and preserved some order in wages.

VIII.—The Method of Embargo.

The repeal of the Leaving Certificate provision was, we have seen, the decisive change. Labour was now free to move, and had every incentive to move in the opportunities of earning higher wages that were held out by eager employers. The fear of compulsory military service was no deterrent in the case of the essential men, just because they were essential. Early in 1918 it became clear that some alternative method of controlling the movement of labour must be adopted, if control over wages was to be kept. Such an alternative was found in a reversion to an expedient that had been discussed in 1915, and provided for in Section 10 of the first Munitions Act, but never used. This was to restrict the freedom, not of the worker to seek employment, but of the employer to give it. This method had been discussed with the unions in the negotiations that preceded the repeal of the Leaving Certificate, and no objection to it raised by them. It was applied first to check the demands of sheet-metal workers in London, who had exploited the need for their services to secure terms of employment much better than those enjoyed by other metal workers of the same industrial grade. It was used again as a means of establishing control over building wages. The attempt to extend it to general engineering, however, provoked an immediate strike in Coventry, which was under investigation by a committee presided over by Mr. Justice McCardie, when the Armistice arrived. Before this committee a witness, giving evidence on behalf of the Amalgamated Society of Engineers, very accurately characterised the new method as "substituting a starting certificate for the Leaving Certificate." In spite of this rebuff the Ministry of Munitions was considering a further use of it when the war ended. It was realised that centralised control was essential if there

was to be any control of labour at all; and that terms of employment must in the last resort be settled by the Government. It was suggested, therefore, that a new set of district rates should be established by conference and reference to the Committee on Production, and these new rates enforced by a refusal to allow an employer to take on or retain labour at any other rates. The proposal was probably too drastic to be carried through at the end of an exhausting war, even with the fine administrative machine which the Ministry had by this time organised; but it illustrates the conclusions to which the experience of their task had driven the officials responsible for the control of wages.

The situation at the end of the war was summed up by the Minister at a meeting with the Management Committee of the Engineering Employers' Federation just a week before the Armistice was signed.

"Here we are in the fifth year of the war, and we seem to be muddling through once again; but of course, we did not start on this war with cut-and-dried plans for dealing with the social and labour questions that might arise. . . . I do not believe myself that during the continuance of the war you will get a good solution of these labour difficulties; for what are you going to base yourselves on? Hitherto, there has always been the power of the workmen to strike, the power of the employer to lock out, and the power of the community to do without the product in the interval. That has been the foundation. But where is it now? There is no such foundation. It has gone. As I have repeatedly said, a great many employers are not directly interested in keeping wages within reasonable bounds. . . . The workmen, and even the large majority who are patriotic, say: 'Why should we not get our share of all that is going?' and the State has not yet found itself capable or competent or strong enough to intervene with broad, clear rulings which have to be obeyed; . . . until the conditions of bargaining are restored to their freedom, I doubt very much whether you will get a satisfactory result or a clear-cut basis."

IX.—The Problem of Co-Ordination.

Before attempting to summarise the conclusions that can be drawn from this narrative, it will be well to glance at one or two further instances of the difficulties with which the

Government found itself faced. Under peace conditions there is no necessity to put pressure on Government contractors to keep wages down. The ordinary pressure of competition provides all that is needed, and the Government is called on to interfere rather to ensure that proper wages are paid, by such provisions as the Fair Wages Clause in public contracts. During the war the pressure of competition operated in the opposite direction. Competition for labour was stronger than competition for contracts, and the cost of wage increases was borne, not by the profits of the contractor, but by the purchasing Department. It might seem that wages might have been controlled by limiting contract prices to a level that would barely cover, with a reasonable profit, the wages that the Government wished to enforce. In practice, however, the obstacles to such a method were insuperable; wage standards were not definite or uniform enough to be prescribed, the ratio of wages to other costs varied, the type of product was continually changing, the departments that placed contracts were primarily interested in supply, not in cost, and wages were constantly changing to allow for changes in the cost of living, in the kind of work done, in the importance of different kinds of skill. Control of wages, therefore, if it was to be exercised at all, must be exercised by a special department, whose business it was to control wages.

Unfortunately there was no one department that could undertake this function. Even within the one Ministry there were conflicting interests. Supply sections were inclined to subordinate economy to the need of securing supplies at any cost, while finance sections were primarily concerned with economy. The interest of the wages and labour regulation department was different again; primarily it was labour-supply, which would be jeopardised by discontent, which in turn could be prevented only by a wise control of wages. The different grades and classes of labour are so connected that a settlement with one class or grade has immediate reactions on others; no one supply department, therefore, could be allowed to settle its own wage questions. Even the wages division of one Ministry was too restricted in its scope. The same classes of labour were working on

contracts for different departments, and the rates of wages of different industries are so closely connected that a change in one will provoke demands in others. Effective wage regulation, therefore, would require control by a single authority over all industries. Instead of this, the control of wages was divided between the Ministry of Munitions, the Admiralty, the War Office, the Coal Controller, the Railway Executive Committee, the Ministry of Labour, and the Committee on Production. The results of imperfect co-ordination have been seen already in the history of the 12½ per cent. bonus; they may be illustrated also by the problem of relating war bonuses to sliding scale advances, by the history of building-trade wages, and by the effects of the Coal Controller's awards.

(*a*) *Sliding Scales and Wage Control.*

The wages of the most important classes of workers in the iron and steel industries are adjusted to changing conditions by an automatic device peculiar to those industries. A given wage-rate is adjusted to a given selling price of a standard product, and a scale of equivalent variations from this base is agreed on; then for every change in the selling price of the standard product there is an automatic variation in wage-rates. Under this arrangement wages in these industries advanced from 30 to 40 per cent. by the end of 1915, and were likely to rise further. At this point the Government fixed maximum prices for the products of the industries. This was done in pursuance of a general policy of price-fixing, directed to securing economy; but the desire to limit wages was also a motive. So far the Government's action had merely put iron and steel workers in the same position as other workers; a difficulty arose, when it became necessary either to raise the maximum prices or to assist the industry in some other way, to meet an unavoidable increase in its costs. If prices were raised, wages would rise also in accordance with the sliding scale; on the other hand, if a system of subsidies was adopted to compensate the manufacturers without raising their prices, the workers would feel that the sliding scale, which embodied their rights under agreement, was being interfered with. The conditions under which they

expected, and were normally justified in claiming, an advance in wages would obtain, but no advance would be given; yet, if prices were allowed to rise, and wages were raised correspondingly, since the rise was due solely to difficulties in securing materials and transport, the wage-earners would be receiving a bonus on the country's misfortunes. It was decided that subsidies, either direct, in the form of grants to meet increased expenses, or indirect in the form of rebates on freights, insurance and exchange, provided a better method of meeting the changed economic situation than an alteration in the fixed prices. It was explained to the workpeople's representatives that these subsidies involved no profit to the employer, and no modification was made in the sliding scales for the time being.

It became impossible, however, to persist in this policy in the autumn of 1917, when the industry's finances were disturbed by the double shock of the 12½ per cent. bonus and the Coal Controller's award. Both involved an increase in costs, which was met by a special allowance by the contracting department. The workpeople naturally claimed the 12½ per cent., pointing out that, since the sliding scales were inoperative, many of them were in a worse position than unskilled labourers and craftsmen, who had received the engineering trade bonuses. The immediate settlement was a merging of war advances and the 12½ per cent.; workers who had not received more than 20s. advance received the 12½ per cent.; where the war advance exceeded 20s., the excess merged in the 12½ per cent.; and it was provided that any future advance accruing under sliding scales should merge in the 12½ per cent. also. This settlement stood until February 5, 1918, when it was replaced by a restoration of the sliding scales; at the same time all war advances, given since March 1, 1917, to meet increased cost of living, were to be merged in the increased wages that resulted from this inclusion of subsidies in selling prices for the purposes of the sliding scale.

(*b*) *Building Wages.*

The building industry illustrates the difficulties of inter-departmental control. It was realised early that independent action by the different contracting departments

would raise costs and lead to unnecessary movement of labour, but effective machinery for co-ordinating action was not devised until 1918. The first important disturbance of wages was due to the War Office, which recruited navvies for special battalions at rates of pay which, including allowances, were above trade-rates. An independent arbitrator's award of a penny an hour above other district rates on a big contract for the Ministry of Munitions excited protests a little later. To prevent such unregulated advances a committee, representative of the chief contracting departments, was formed in 1915 to review wages. The problem was difficult, because the committee had no powers to coerce the trade. Building was not within the definition of munitions until the 1916 Act; in any case, control by the Leaving Certificate provision was unsuited to the building industry with its normal system of short term engagements. National standards of wages did not exist, and again were unsuitable owing to the diversity of local conditions. The committee sought, with some success, to exercise control by circularising contractors, and by a mutual agreement among the representatives of the different departments to report contracts and to check any payments above district rates made without the consent of the committee.

The committee could not, however, prevent departures from standard rates and conditions arranged by independent arbitrators. At the end of 1916 the informal agreement between the members of the committee was replaced by a formal agreement between the departments they represented, to restrict contractors to standard district rates and advances authorised by the committee; but the shortage of labour was so great that the upward and irregular movement of building wages continued, and, when time-rates were not advanced, departures from the usual custom of the industry, such as the payment of " wet money," for time during which work was interrupted by weather, or lodging allowances, were made by arbitrators or new departments. To secure some control use was made of Regulation 8A(b) of the Defence of the Realm Act to limit the employment of labour on private work, and a new Regulation, 8E, under that Act prohibited the undertaking or completion of any building

contract of more than £500 value or involving the use of structural steel, unless carried out under Government or other public contract or licensed by the Ministry of Munitions. The serious competition for labour was, however, on Government contracts.

In the autumn of 1917 the newly-formed Ministry of National Service, in discharge of its function of economising man-power, organised joint committees of employers and workpeople in the different industries, among others in the building industry. This new joint committee was to settle questions of wages and conditions, as well as the economising of labour and allocation of contracts. To this crude syndicalist proposal the old Building Labour Committee offered strong objections, which were reinforced by the department most concerned with wage problems, the new Ministry of Labour. It was objected that the difficulty of enforcing adherence to standard rates was due, not to demands from the workers, but to the eagerness of employers to secure labour by offering higher rates at the expense of the Government for whom they were working. A committee representative solely of the trade could be relied on to consider neither public economy nor wages in other industries; it would cut across the general control over wages which the Committee on Production was attempting to exercise, since one industry's settlements reacted upon other industries. The project was defeated, and a final solution found by reviving the National Conciliation Board of the Building Industry to submit regular applications to the Committee on Production; while variations in district conditions and customs were submitted by local conciliation boards to the Minister of Labour, who was advised by the Building Labour Committee. To compel observance of the rates and conditions so established, use was made of Defence of the Realm Regulation 8A(b), which empowered the Minister to prohibit the employment of labour except on these conditions.

(c) *The Coal Controller's Awards.*

The third illustration of the difficulties of co-ordination that we will take is the trouble caused by the independent settlement of wages in coal-mining. This industry was

under the general supervision of the Coal Controller, who on September 28, 1917, granted an advance of 9s. a week (4s. 6d. to workers under sixteen) to all colliery workers, except mechanics and others whose wages moved with wages in their own craft. This was some weeks before the 12½ per cent. was granted to skilled time-workers in engineering and affected more workpeople; if the charge of "butting in" and disturbing the co-ordinated settlement of wages was to be brought against anyone, the Coal Controller, rather than the Minister of Munitions, was the proper object. Although the award was made without the Ministry of Munitions being consulted, it vitally affected the Ministry's work, since the Miners' Federation demanded the advance for coke-oven workers and miners in lead mines and other works, which were engaged on Ministry of Munitions contracts. The Coal Controller's department took up the Federation's demand with the supply department of the Ministry of Munitions concerned; but the Labour Regulation department, whose policy was much more intimately affected, had already been forced to consider it.

The Coal Controller's award brought up the miners' war advances to 29s., as against the 15s. which the engineering and shipbuilding trades had up to that time received. Such a disparity was bound to produce discontent and unrest, even if there had not been, as unfortunately there were, classes of workpeople—for example, engine winding men—of whom some received the Coal Controller's award, while others had only the munitions trades advances. It was felt that the Coal Controller's action amounted to a claim to a jurisdiction over wages, independent of the Ministry of Labour and the Committee on Production, with whom other Departments endeavoured to act. The Ministry of Munitions, therefore, supported the Ministry of Labour's protest to the Cabinet against the Coal Controller's action, and proposed to refer any claims made upon it by members of the Miners' Federation to the Committee on Production. The Coal Controller's department stated that such a course would result in strikes, and the Ministry found itself forced to concede the Federation's demand.

Since commercial conditions varied in the different con-

cerns affected, this unco-ordinated award caused serious difficulties. In the case of lead mines the Ministry had to undertake to reimburse the employers the whole cost of the award to men working on private contracts; most of the work affected, however, was for the Government. A greater difficulty was the varying basis of wages. Coke-oven workers, for example, were members of the Miners' Federation or an affiliated body in South Wales, Derbyshire, and certain other fields, and automatically received the award; in Cleveland, Durham, and Lincolnshire, on the other hand, they were associated with blast-furnacemen, and their wages moved under the sliding scale; nevertheless they had been led to expect the Coal Controller's award and succeeded in getting it. Similar difficulties arose over ironstone miners and clay-workers, some of whom were in the Miners' Federation and got the award, while others did not. The disparity in advances was, however, lessened when the arrangement was made to treat subsidies as the equivalent of price increases for the purpose of sliding scale adjustments, since many of the marginal classes were covered by sliding scales.

Similar difficulties arose on June 12, 1918, when the Miners' Federation demanded another 9s. advance. The Coal Controller, with the authority of the Cabinet, offered 3s., with the alternative of arbitration; but the Federation refused this, and the Cabinet, against the advice of the Ministries of Labour and Munitions, conceded the full demand in the interest of output. The Ministry of Munitions prepared to discuss the extension of this second award. The Federation's representatives visited the Ministry the day after the Cabinet decision had been announced, and demanded the extension of the award to all their members; failing an immediate undertaking to this effect they should go back to the Prime Minister. Again the Ministry extended the award to mining and allied workers employed by its contractors.

Thus the Coal Controller's action compelled the Ministry of Munitions to extend its regulation of wages to a new field, that of the industries intermediate between, or associated with, coal-mining and iron production. Its effect on the regulation of wages in general was to compel the War

Cabinet to take up the question of the co-ordination of departmental action in regulating wages.

The nucleus of an organisation that could co-ordinate wages policy had always existed in the division of the Board of Trade, which was taken out to form the Ministry of Labour in 1917. This division collected and transmitted to the Committee on Production or to single arbitrators differences reported under Part I. of the original Munitions Act, and other differences in trades that did not fall within the scope of that Act. It had negotiated the series of national agreements, by which, in most of the munition trades, a reference was made at four-monthly intervals to the Committee on Production, and war advances adjusted to the cost of living. By this device the Committee's control over wage movements was very much increased, since it was enabled to correlate local advances in each industry and advances in different industries; moreover, other trades, which did not come before the Committee, were nevertheless guided by its awards. Actually the Ministry of Munitions directly intervened in more wage questions, since the Minister determined by Order the wages of most women munition workers and had to deal, under his sanctioning power, with large numbers of group and sectional demands; but the Ministry of Munitions co-operated with the Ministry of Labour, and normally exercised its influence within the lines laid down by the awards of the Committee on Production. It was the coincidence of the Coal Controller's award and the 12½ per cent. bonus, both of them outside the Committee on Production's scheme of advances, and both affecting large numbers and exciting numerous marginal claims, that compelled the attention of the Cabinet.

The issue raised by the Coal Controller's independent action was brought before the Cabinet by the Minister of Labour, and referred to a Committee. The Committee reported that pressure by powerful unions could be resisted only if one authority dealt with all general demands; there was no justification in principle for dealing with the mining industry by a different machinery than was used by other industries; the Coal Controller had reported that there was the strongest opposition on the part of both mine-owners and

miners to any interference by the Ministry of Labour, and that they seemed to desire that their industry, by virtue of its great strength and peculiar character, should occupy a privileged position in this respect and be virtually left to itself; but the committee would not admit such a claim; the State was the real employer, and the natural authority to deal with wage-claims was the Chief Industrial Commissioner's Department of the Ministry of Labour, with the Committee on Production behind it.

The Cabinet approved the committee's report, and instructed the departments to arrange the details of its application with the Ministry of Labour. The new problem presented by claims for the 12½ per cent. bonus, however, led it to appoint a special inter-departmental committee to co-ordinate wage policy. The lines of policy to be followed were laid down in the memorandum appointing the Committee; negotiations in the departments for the settlement of disputes and wage-claims (whether by agreement, order, or otherwise) were to be conducted with a view (*a*) to confining concessions within the general limits set by the Committee on Production's awards, (*b*) to dealing with inequalities within an industry or class, and (*c*) to observing the general principle that no advance should be made that was likely to disturb working conditions or district rates. The committee does not, however, seem to have functioned, and it was left to the Ministry of Labour to endeavour by continuous consultation with the other departments, and reference in the last resort to the Cabinet, to give effect to this policy.

It cannot be said that complete co-ordination was secured; or perhaps it should be said that it was impossible to observe the limits that have just been indicated. Thus, almost immediately the Minister of Labour had to bring before the Cabinet the case of the London sheet-metal workers who were demanding a further advance, although they already enjoyed a bonus 13s. a week higher than that of the rest of the engineering trades, and had refused arbitration six times. Most of the firms employing them had given way without the Government's consent, and the men were on strike where the employers still held out. The Cabinet conceded the advance

on an appeal from the Minister responsible for the aircraft on which these workers were engaged. A similar case was a claim of coke-oven workers to time and a half for week-end work. It was resisted, because it was not the general practice to pay such special rates in continuous processes, and a concession here would provoke demands elsewhere. The workers had already secured an award of time and a quarter from a special tribunal after the Committee on Production had refused it, and it was pointed out that any concession would react most unfavourably on the authority of the Committee; already the Committee's work was becoming almost impossible, because the Government superseded its awards and employers gave independent sectional advances. Nevertheless the interests of supply prevailed, and the Cabinet felt compelled to authorise the advance. This was the root of the trouble; wage regulation, although it had become one of the most important functions of Government, was still only a by-product of munitions supply, and, whenever supply was jeopardised by a threat to withhold labour, pressure of the department interested in supply was almost irresistible.

X—The Administrative Lessons of War Control.

It is clear from this narrative that the control of wages in the war period was an indecisive experiment. It was partial, reluctant, and unsystematic; while the shortage of labour, inflation of prices, and rapid change of technical methods made conditions abnormal. The experience was, however, illuminating—the more so in certain aspects just because it was abnormal—and it suggests certain conclusions that have an important bearing upon the problem of Government control of wages under less abnormal conditions. I will conclude by setting these forth as briefly as I can.

The first conclusion is, that for purposes of control wages must be dealt with as a whole. Wage-rates constitute an organic system in the sense that a change at any point involves change at others. An advance to one class or grade of workers provokes demands, which it will be difficult to resist, from others. This is the significance of the history

of the 12½ per cent. bonus to skilled time-workers and the contemporary extension of the Coal Controller's award. Its importance had been revealed earlier, by the increase in the movement of labour as soon as opportunities of earning in industry began to diverge; between August, 1914, and April, 1915, at one of the largest armament establishments in the country, for every 100 men taken on, thirty-five left, while, at the three works of the other great armament firm, in April and May the number leaving was half the number taken on. Such a labour turn-over was quite unprecedented in English industry—though common enough in American industry where there are few standard rates—and was due to uncontrolled divergences of wages from district standards tempting the wage-earner to move after higher rates.

The clearest demonstration of the principle was, however, the steady extension of the Government's powers of direct wage control. Against its will the Ministry of Munitions found itself compelled to assume the responsibility of fixing by Order the wage-rates of women doing skilled men's work. Before it had acted on the decision so to do, it was forced to extend its powers to fixing by Order the wage-rates of women on "women's work"; although the reason for interference was that women were substituted for men, the limits of interference could not be restricted to women who were substituted. At the same time it was found expedient to take power to regulate the wages of unskilled male substitutes for skilled men. There the extension stopped for a year and a half, when it was found necessary to undertake the regulation of wages of skilled male time-workers, and to extend arbitration awards from the firms and workers who had submitted their differences to arbitration to the whole of the trade or industry in which they were engaged. Thus a limited interference for a limited object grew into a system of interference which put the responsibility for all wages in munitions production, and indirectly in much other production, on the shoulders of the Government.

The effect of the Government's policy of promoting payment by results points the same moral. Employers, with the Government's approval, sought to stimulate output, and so economise labour, by substituting payments by results

for time-work. The Government prohibited the cutting of rates, where no change in the method of work had been introduced. Mistakes in rate-fixing were perpetuated, and expressed themselves in disconcerting variations in the earnings of different workers engaged on the same work. Since they also resulted in individual repetition workers earning more than the skilled supervisors, who made their output possible, but were themselves paid time-rates just because their work was too varied and responsible to be put upon a piece-rate basis, it created the skilled time-worker's grievance. By its policy of encouraging payment by results, the Government had disturbed customary relations between the wages of different classes, and was forced to take further action to redress the disturbance.

Certain administrative consequences follow from this integral character of the wage-systems. The first is the importance of precise and detailed demarcation of the class to which any wage order (or arbitration award) shall apply. In the last resort any demarcation must have an arbitrary element, since there are no sharp lines of division in industry; but administration will be eased if indefinite descriptions are avoided, and the scope of any order or award specified in the most specific detail. Thus the Treasury Agreement that " the admission of female labour shall not adversely affect the rates customarily paid for the job " had to be elaborated into an extensive code of Women's Wage Orders before it was workable; and the grant of the 12½ per cent. bonus to " fully qualified skilled time-workers in the engineering and foundry trades " released an avalanche of claims, which finally submerged the original bonus in a general advance for all wage-earners in munition industry.

The second obvious consequence is the importance of centralised control. If a decision at any one point in the wage system may have reactions at any other point, effective control can be exercised only by a unified authority. Either there must be, as Mr. Churchill was suggesting at the end of the war, a single department responsible for all wages questions, independent of the various contracting departments that paid the wages; or some co-ordinating machinery is necessary to prevent ill-considered or dislocating decisions

by one department acting independently. The latter was the solution which the Ministry of Labour, with the support of the Ministry of Munitions, endeavoured to induce the Cabinet to adopt in September, 1917. It was not possible, however, under the stress of war conditions, to make such co-ordinating action completely effective. A serious obstacle to such co-ordination was the action of the Cabinet itself. On many occasions the Cabinet listened to an appeal from a contracting department or a trade union, and overruled a decision that had been dictated by the policy of co-ordinating wage settlements. Not only was the Ministry of Munitions' control of its own problems undermined, if the Miners' Federation, when it applied for the extension of the Coal Controller's award, could threaten, if their demands were not immediately conceded, to go back to the Prime Minister, with the assurance of being listened to; not only was the Committee on Production's authority undermined, when the Cabinet granted demands which the committee had felt itself compelled in the interests of logic and uniformity to refuse; but any system or order in the relation of wage-rates was impossible. The Cabinet was not primarily or continuously a wage-fixing authority; it did not understand, or, if it did, could not be relied on to bear in mind, the reactions which an isolated decision might have on wage demands that were not before it; it was influenced by considerations of political expediency rather than considerations of consistency in economic policy; its decisions, therefore, were frequently illogical and inconsistent with one another, and represented rather concessions to the strength of the group demanding them than a recognition of the reasonableness of their claims. Nothing, perhaps, has done more since the war to delay the restoration of wages to a stable basis than the intermittent interference of Prime Ministers and Cabinets in important wage disputes, which they settled without realisation of the reaction of their settlements upon wages generally.

While unified, or at any rate co-ordinated, control was thus essential, it did not follow that the actual handling of wage questions in day-to-day administration could be centralised. The demands for general advances could be centralised and

dealt with by the Committee on Production, and the general conditions of employment of a large class of workers, such as the class of women engaged on work that was formerly done by men, could be embodied in a single general Order; but every such determination gave rise to thousands of individual claims, which had to be scrutinised and dealt with on the spot, if they were not to give rise to feelings of irritation and injustice. Even if, as was usually the case, the decision had to be made by the central department, the investigation of the circumstances of a claim or a grievance had to be made locally. It became necessary, therefore, to build up an organisation of local conciliation and investigation officers, who could intervene as soon as an issue arose, and, if it could not be settled by agreement, report it for departmental decision or arrange for it to be referred to arbitration. This organisation not only saved friction and ill-will by dealing promptly with difficulties, but anticipated them by explanation and the removal of misunderstanding, and acted also as the eyes and ears of the central department. The task of administering wage Orders and awards was very much eased by the development of this organisation, and it is a fair inference that some similar system of decentralised administration is necessary to the smooth working of any policy of statutory control of wages.

XI.—Control of Labour as a Condition of Control of Wages.

The second general conclusion refers to the object of wage control. The Government's object during the war appears to have changed. At first it was solely to prevent strikes,* leaving wages to be settled between employers and employed by the customary methods and on the customary considerations. Later the Government sought to use the control of wages as a means of economy; in other words, to prevent

* *Cf.* Treasury Conference, March 19, 1915; Mr. Henderson: "You do not want to prevent our men making an effort to get something, but you do not want them to stop working." The Chancellor of the Exchequer: "That is it; we do not want them to stop work."

wages from rising as high as the uncontrolled power of the wage-earners would have otherwise raised them. Now the conditions of control in the sense of setting wage-rates, other than those which would be reached by the interaction of supply and demand, are very different from those of control, in the sense merely of ascertaining and formulating authoritatively the rates that free bargaining would in any case have established. The latter has difficulties of its own, to which I will return in a moment; but the former has to overcome difficulties so great, that the experience of the war suggests that it is not a practicable policy.

The conclusion to which the war experience points is that the control of wages, in this sense of enforcing rates other than those which represent the equilibrium points of the supply of the different kinds of labour and the demand for them, involves and requires some form of control of the supply of labour; just as it was found that the fixing of prices led to, and necessarily involved, Government control of supplies of commodities. Both the successes and the failures of control point to this conclusion. In the army rates of pay could be fixed and duties assigned, without much attempt to relate the two, because the men were under military discipline, and the Government could exercise complete control over their movements. Similarly in controlled establishments, skilled time-workers could be kept at responsible and difficult work at weekly wages, less than some repetition workers on semi-skilled jobs were earning, because the workers were prevented by the Leaving Certificate provision from moving individually, and by the prohibition under Part I of the Munitions Act from withholding their labour collectively. Similarly the embargo on advances could be maintained in 1915 and 1916, and wages kept below the point to which the wage-earners could have forced them by a mere threat to strike, so long as the legal prohibition of strikes was respected. When it became clear that the men's official leaders could no longer hold them back, and that illegal strikes under unofficial leaders would break out if no concession was made to the claim for some advance, the embargo had to be lifted. Again, it was not possible to confine wages in the building industry within the limits

of the general advances allowed by the Committee on Production, until power was taken to restrict and control the movement of building labour, by forbidding employers to take on labour at terms other than those authorised. Finally, in the most successful field of wage control, that of women's labour, so far as the rates set were other than rough ascertainments of supply and demand rates, they could be enforced only because the women were under the Leaving Certificate provision.

The failures confirm the lesson of the successes. The first attempt to extend the Munitions Act by proclamation failed of its purpose, because the prohibition of a strike could not be enforced against the united determination of two hundred thousand men. The South Wales miners demanded simultaneously an advance in wages and a modification in the pre-war wage agreement. It was against the policy of the Government to introduce during the war modifications in pre-war conditions except by agreement, and the threat of a strike was met by proclaiming the dispute under Part I. of the Munitions Act and so making the strike illegal. Nevertheless the men struck, and the Cabinet compelled the mine-owners to concede their demands. We have seen how the removal of the Leaving Certificate provision deprived the Ministry of Munitions of much of its power to refuse wage demands. The avalanche of claims and the administrative confusion that followed the Coal Controller's award and the 12½ per cent. bonus could have been dealt with effectively, if only the workers had not been free to move; and the departments, on whom the responsibility of dealing with them rested, could not reconcile the claims of economy with those of uninterrupted supply, unless they recovered the legal power to restrict the movement of labour. Hence the revival of the method of restricting the employer's right to employ labour on terms other than those laid down by authority.

The lesson of the Leaving Certificate is the more significant in that the original policy of the Government, to leave wages to be fixed by spontaneous collective bargaining, merely substituting arbitration for the strike or lock-out in the last resort, required no interference with the free movement

of labour, and the clauses in the original Munitions Act, Sections 7 and 10, which did so interfere, were inserted with no intention of influencing wages, but solely to preserve discipline and prevent the waste involved in a continual shift of labour.

When there is a shortage of labour relative to the demand, it is not possible to restrict wages, if the labourer is free to offer himself to the highest bidder. Even when the Leaving Certificate provision was in force, some labour-stealing went on, and earnings were forced up by fancy bonuses and over-generous piece-rates. The legal power to enforce a maximum rate was insufficient, when the labour demanding an advance was both united and indispensable. In the absence of any accepted ethical principle on which to base wages, the wage-earner cannot be restrained from pressing for what he can get; for, in the absence of such a principle, he easily persuades himself that he has a right to what he has the power to exact. The exercise of Government powers in a democracy depends on general consent; and that consent is lacking when there is no agreement on the principles which the Government is to apply.

This brings us to the third conclusion that I think we are entitled to draw from the war experience. A Government that undertakes to fix wages is faced with a difficulty that does not attach to voluntary and private negotiations over wages. Inequalities and other anomalies are tolerated so long as they are the result of private arrangements. But Governments, rather optimistically, are expected to be consistent, and to base their administrative action on generally accepted social or moral principles. This follows from the nature of Parliamentary government; a Minister has to explain his policy in Parliament, and has to justify his actions if challenged; he can explain and justify them only by referring them to some general principle which the members will accept as authoritative. There are no such generally accepted principles by reference to which wages can be fixed by authority.

XII.—Wage "Principles."

A meaning, definite enough to be of some use in wages policy, can be given to the phrase Fair Wage;* a wage may be said to be fair when it is equivalent to other wages for equivalent skill and hardship. But the continuous and rapid change in economic conditions during the war made it impossible to maintain such equivalence, and the workers who were able to get more than the pre-war equivalent for their skill and effort would not be contented with less. A variant of the same principle was put forward in the demand for "Equal Pay for Equal Work," when women replaced men. The uselessness of any such formula may be illustrated, in order to bring out the difficulty of applying vague principles to actual problems.

The Treasury agreement laid it down that the admission of female labour to work usually reserved for men should not "affect adversely the rates customarily paid for the job." It was, however, exceptional for women to take over, unchanged, work formerly done by skilled men; and it was exceptional, when women entered a trade, for men to continue to be employed alongside of them, doing the same work. Where there was no change in the work done, and men continued to do it, there was no difficulty in paying the same rate to men and women; but unless the women were as efficient as the men, this did not ensure equal pay for equal work. Usually, however, the work was not "equal." A skilled man's job might be split up among a number of women, who were each specialised to a part of it; in that case the women were doing the men's work, but the work was not equal. Should the women all be paid the skilled man's district rate, as the unions claimed, or a part of it? In one case the employer proposed to pay to the women substituted for skilled men a total amount equal to the pay that skilled men would have got for a given output; but on that system none of the women would have had the skilled man's district rate, and the union refused to accept the solution. Again, how should the women be paid, while they

* *Cf.* Pigou, *Economics of Welfare*, cited below, Ch. viii.

were acquiring their limited skill? Again, the claim was made for the full skilled rate. The actual solution adopted was to pay the women less during a probationary period, and then to pay them the district rate, even though they did only a part of the skilled man's job.

These difficulties did not arise where payment was by the piece; but another problem arose. Women put on men's work were given rates of pay, whether time or piece, based upon the rates the men had been receiving. But no rates were permanent; men's rates for work, that men retained or were transferred to, were raised by war bonuses or percentages; should the rates of women substitutes be raised by the same amounts, or only by the amounts by which other women's wages were raised? The workers claimed that they should receive bonuses on the men's scale, since they were doing "men's work"; the Ministry contended for, and the Special Arbitration Tribunal awarded, bonuses on the women's scale, in order to avoid the trouble that would have been occasioned by paying different rates of bonus to women working in the same factories, merely for the historical reason that once upon a time the work now done by some of the women used to be done by men. These were among the simpler problems that had to be solved.

The nearest approach to a principle that could be applied and defended was the Committee on Production's principle of maintaining the *status quo ante bellum*, with only such modification as was necessary to compensate the wage-earner for the increased cost of food. That principle, as we have seen, was not applied early enough nor consistently enough to prevent sectional advances that were inconsistent with it; it was undermined by the disproportionate gains of a minority of piece-workers, who had been lucky in having piece-rates set unduly high; and, even if there had not been these departures from it, it was open to the objection, urged more particularly by the spokesmen of the women's unions, that the *status quo* was unjust in its incidence, and that it would have been unfair to refuse the lower-paid classes of women some recognition of the importance in the national economy that the war had given to their work.

It is significant that no attempt was made consciously

and explicitly to assess the value of different kinds of labour by reference to their relative importance for the purpose of the war. A war-priority scale was drawn up, and was used for the purpose of deciding what workers should be released or retained, as the demands of the combatant services for additional men were presented. Such a basis for payment would have been logical, and consistent with the end to which the whole of the Government's action was directed; as such it could have been defended in Parliament. Such a policy probably was never thought of, because it could not have been carried out; to impose upon industry a set of rates, derived from an extraneous principle like that, would have been possible only if the workers had been subjected to a military discipline as complete as that of the army.

XIII.—The Limits of Government Control of Wages.

Thus every principle, which it was attempted to impose by authority upon the system of wages, was in practice given up, when exceptional bargaining strength pressed a claim inconsistent with it. Can we infer then that the Government's attempt to control wages had no effect? Such a conclusion would be as wrong as the opposite view, that the mere imposition of Government control eliminates the influence of supply and demand. A moment ago we distinguished between two kinds of control—control that sought to eliminate the influence of supply and demand, and control that did not; the former we saw depended on a power to restrict the free movement of labour, which the Government took, but found itself unable to retain. The Government's action could still be effective, and in fact was widely effective, in control of the other kind. The final conclusion, therefore, to be drawn from the war experience, is that a Government can do much to regulate and control the movements of wages, without attempting to eliminate the influences of supply and demand.

In retrospect it is not difficult to perceive, that the wage-fixing authorities acted, in general, on the principle of fixing rates at the amount that it was necessary to pay, in order to keep the different classes of labour at the work at which

the Government, as the chief consumer of the products of labour, wished to keep it; which is the principle on which rates of wages are determined by the higgling of the market in peace-time. They raised women's wages, because it was necessary to attract more women into industry. They raised unskilled wages relatively to skilled, because war production enlarged the scope of employment of unskilled and semi-skilled labour, and gave to those categories a degree of scarcity that in peace-time only the skilled grades had possessed. They kept down, relatively, skilled time-workers' rates, so long as they could keep them at their skilled work at those rates, and gave them a bonus so soon as they were free to move to other, more remunerative, work. They took, necessarily, pre-war rates as their basis, modifying them only to the extent of adding bonuses to compensate for the increased cost of living, because pre-war rates represented the supply prices of the different kinds of labour; but it was not possible to limit advances to cost of living bonuses, and large classes, as well as individuals in all classes, secured more because they could exact more. Unless the Government had been prepared to conscript labour, and to substitute more or less uniform allowances for wages, it could not have adopted any other policy. But all this does not mean that its interferences with wage-fixing were either ineffective or unnecessary.

Government does not need to control or restrict the movement of labour, if it confines its action to assessing, through suitable arbitration or other authorities, the strength of the demand for different kinds of labour and the extent and bargaining strength of the supply in each case, and then declaring authoritatively the rate of wages that would otherwise have been ascertained and established by a trial of strength in a stoppage. That, we have seen, was the policy that the Government adopted, when it first interfered with wages in order to prevent strikes; it was not, however, in the circumstances of the war a method to which the Government could limit its action. The arbitral determination of disputes requires time and a reasonable stability of conditions, which were lacking; it requires further, as we have seen, either determination by a single authority, or

close co-ordination of the action of independent authorities, to ensure uniformity and consistency, and these could not be improvised under the pressure of war needs. A more expeditious procedure was necessary, and this was provided in the system of statutory Orders and national awards.

Thus, instead of leaving the women-workers, who were coming into industry in large numbers, to secure the wage which the indispensability of their services might enable them to secure, by individual pressure, collective threats of strikes and political agitation, the Ministry made or accepted an estimate of the appropriate rate, put it to the Special Arbitration Tribunal, and embodied it in an Order. That the estimate was higher than employers thought necessary and lower than the women's leaders claimed, was not very important; the important thing was to settle on a rate that was reasonable in the circumstances of the case and ensure that it was uniformly enforced. Similarly national advances were an improvement on the local and sectional concessions, which they replaced, because they saved time and temper. The enforcement of these awards throughout the trades in which they were given had the same merit; it secured to the less organised workers in outlying firms advances to which they knew they were entitled, but which they could not have exacted for themselves. Even in war-time there were helpless individuals and classes of workers who needed the protection of the State; unaided, they would have been paid less than their needs and industry's capacity would justify. The Government's control of wages checked this kind of exploitation, and enabled the most depressed classes, perhaps, to gain most from the rapid economic changes of the period. How effective the Government's aid was is shown by the change in the ratio of skilled men's rates to those of unskilled men and women, and by the persistence of the new ratios ten years after the war ended.

The control exercised over wages during the war, then, was rather a policy of *interpreting* than of superseding the play of supply and demand; it substituted enquiry by a committee or a department for the expensive method of trial of strength; and it embodied wage determinations in authoritative Orders instead of leaving them to private

agreements. And in the process it was able to accelerate the advance in the wages of the less organised workers and check the exactions of the better organised; it maintained some uniformity in the rate of advances in different trades, and levelled up district standards to a common national level. It was able to set some limits to the divergence of rates from pre-war standards, and did much to damp down the effects of the temporary changes in the supply of and demand for labour. Even in the difficult and rapidly changing conditions of war-time, therefore, the control had important and beneficial effects. In time of peace, when the economic conditions to which wages have to be adjusted do not change so rapidly, and the pressure of more urgent work does not make it impossible for Cabinet and Parliament to devise suitable machinery for assisting this adjustment, a similar control would be easier to exercise and would be beneficial with fewer qualifications. To that extent the war experience is encouraging.

III

THE POST-WAR WAGES PROBLEM—(I)*

I

BEFORE the war the economic changes to which wages had to be adjusted were gradual. Rates of wages, therefore, had a high degree of stability, and the relations between wages in allied or neighbouring occupations were equally stable. Wages, it may fairly be said, constituted a system, since there were well-understood rates for most occupations; the relations between these were stable and generally accepted, and a change in any one rate would prompt demands for a change in other rates. It was this systematic character of wages that made wage changes so simple a problem compared with today's task. The abstract and unanswerable general problem, What is a fair wage? never came up; the problem was always the problem of a particular rate for a particular job. This was argued by reference to the normal relation between the rate for that job and other rates, and to relevant economic changes that might justify a departure from that normal relation. A change in the value of money might make necessary a whole series of changes in rates of money wages, in order to restore the previous relation between different trades, or between wages and profits; but the problem was limited to modifying an established system of rates, so as to keep it in harmony with the economic facts on which wages ultimately rest. This modification itself was done largely by collective bargaining, *for* the individual employer or wage-earner, not *by* him; the ordinary employer had to work to conditions of employment which were set for him. Hence the wage system lent some of its own

* Paper read before Section F of the British Association at Liverpool, September, 1923, and published in the *Economic Journal* of March, 1924.

stability to prices, which, even more than wages, have got out of step since the war.

The effect of the war was to dislocate this system and destroy its stability, with the result that we have been forced to face the problem of wages as a whole, and to consider absolute levels of wages in place of merely making adjustments. This result has been brought about in three ways: the war substituted sudden and extensive changes for the gradual changes to which we were accustomed before; it interrupted the process of continuous adjustment of wages to changed commercial conditions; and it introduced modifications that brought wages into closer correspondence with war-time economic needs, but caused them to diverge from normal commercial needs.

The rise in the cost of living, the profits of munition makers, the early losses and subsequent profits of other manufacturers, dilution, the creation of new industrial districts, the Government control of railways and coal—all involved either the need or the opportunity for extensive changes in wages, which the existing machinery of collective bargaining was too cumbrous to cope with. The orderly modification of wages to suit changes in the supply of different kinds of labour and changes in the demand for different kinds of work necessarily stopped, because the normal commercial basis of employment was lost. Instead, we had an attempt on the part of the Government to limit wage changes to bare cost of living advances, and to rely on other, authoritative, methods to direct labour to the changed purposes to which the war had given rise.

Government control of wages, however, was successful only in lessening the force of the pull that the war enabled favoured classes of workers to exert; it did not neutralise it. Hence there were important modifications in wages, justified by the needs of industry in war-time, but bearing no necessary relation to peace-time commercial conditions. Unskilled labour, male and female, being for the first time insufficient to meet demand, was able to improve its relative position; the Committee on Production's policy of awarding flat-rate advances to meet the increased cost of living was a recognition, probably unconscious, of the improved bargaining

position of the labourer. Control lost much of its effectiveness, because it was not imposed at the outbreak of war; by the time it was imposed systematically, considerable divergences had already taken place in the advances secured by different classes of workers. And in some directions control accentuated rather than prevented divergence from peace-time ratios. The encouragement of systems of payment by results, before sufficient experience was available to set piece-rates and bonus-times that would yield without wide variation earnings of the intended amount, led to wide divergences of wages, and created the so-called "skilled man's grievance," which the 12½ per cent. bonus of 1917 was intended to remove. The pledge to pay dilutees the same rates as the skilled men whose place they took for the same work involved disturbance in normal relations. The practice of adjusting wages by national awards, coupled with the reservation of the right to bring up the case of exceptionally low-rated districts, led to a levelling up of wages in each occupation. So far as the local differences thus swept away were due to permanent economic differences, the effect of this levelling up was to force wages out of correspondence with normal commercial conditions. And these war-time innovations lasted just long enough to encourage the workers who had gained by them to hope that they would be permanent, but not long enough to extinguish the recollection, and therefore the influence, of the pre-war ratios that they superseded.

In this dislocation of the pre-war relations between the wages of different classes of workpeople is to be found the explanation of a large part of the discontent that has led to strikes and lock-outs since the war. If workers before the war had insisted on questioning every rate, on accepting none that could be neither justified by an acceptable ethical argument nor enforced by a lock-out, we should not have enjoyed the (relative) industrial peace that we did. In fact, as we saw, the problem of wage-fixing was limited to adjusting particular rates to particular economic changes, always with reference to a system of rates that was generally accepted. Since the war this necessary basis has been missing. Few workers could not point to someone whose relative position

had improved more than their own, so that any improvement they had secured left them unsatisfied. The habit of comparison with allied and neighbouring classes, which before the war acted as a restraining force, preventing a group from exploiting to the full any temporary bargaining advantage it possessed, now operated in the opposite direction, exciting further demands. The influence of the pre-war system of relations was still operative, since it led workers who had not maintained their position in the scale to expect and demand compensating advances; but it did not operate as an effective argument for a reduction where workers had improved their relative position.

Employers were equally without guidance as to what they could concede, since commercial conditions were so hard to judge. They resisted demands for increases in wages on the ground that trade could not stand them; rightly enough if they were taking a long view, but without much immediate justification if their profits in 1919 and 1920 are any indication of what trade could stand. The close and continuous contact between trade-union officials and employers, which normally enables them to gauge pretty accurately how far they can go without provoking a rupture, had been interrupted by the period of Government control of wages. Both sides, therefore, were almost compelled to question every rate; a stoppage was often the only means of ascertaining what rate the trade would bear. We were, for the time being, faced with the question, What is a fair wage? and compelled to consider, by such machinery as the Sankey Commission and the Shaw Court of Enquiry, what the absolute level of wages in essential industries ought to be. The problem of wages as a whole came up on every particular wage dispute.

There is not much prospect of a return even to the qualified peace that characterised industrial relations before the war, until something like the pre-war stability of wages is restored. This involves two things: the rates must be adjusted to the normal commercial needs and possibilities of each industry, and the relations between them must be such as the workers accept as reasonable. At present the worker's mind is still influenced by the system of pre-war relations; progress

towards adjusting wages to a commercial basis outrages his sense of equity wherever that adjustment has meant reduction in the scale. Hence there is no finality about these adjustments, and they will be challenged so soon as the unions feel strong enough to challenge them. Employers as well as workers are dominated by these pre-war notions, and complain that workers in other trades have not made the sacrifices that their own have made to reduce costs and revive industry. Yet it is on the face of it in the last degree unlikely that the system of rates that represented a fair adjustment to commercial needs before the war will have the same validity in the changed post-war world. The need is not to restore the pre-war system, but to secure a post-war system with the same stability as the pre-war system. To do this, the chief need is to get clear the changes, permanently affecting wages, that the war has brought about. The war interrupted the process of continuous adjustment to economic changes in the wage system and accelerated economic change; there was, therefore, at the end of the war an accumulation of changes to which wages had to be adjusted, and there can be no stability in wages until these changes are recognised, adjustments made where they are necessary, and, a matter of equal importance, the necessity of modifications recognised where these have already been made.

II

Obviously it would require the resources of a Government department or a Royal Commission to survey the changes adequately. I can hope only to indicate the chief among them, without much detail. They can, I think, be conveniently brought under four heads: occupational distribution, organisation, markets, and nature of work.

Perhaps the most important effect of the war for the post-war generation is the change it brought about in the distribution of population among occupations. The war gave an abnormal stimulus to certain industries; the exigences of war starved other industries of their normal development. And the war lasted long enough—about the duration of an ordinary apprenticeship—to make these influences effective.

The following table brings together the chief changes in the occupational distribution of which we have information:

GREAT BRITAIN: ALL PERSONS.

	June, 1914.	*January*, 1922.	*Increase or Decrease.*
Building and Construction	908,000	870,000	− 38,000
Engineering and Iron-founding	790,000	1,127,000	+337,000
Shipbuilding	242,000	315,000	+ 74,000
Railways (United Kingdom)	639,000 (December, 1913)	763,000 (March, 1921)	+124,000
Coal-mining	1,134,000	1,180,000	+ 56,000

Even more striking is a comparison made by Professor Bowley* between the shift of population into certain industries and the increase in the population.

GREAT BRITAIN AND IRELAND.

	1911.	1921.	*Increase.*
Male population, aged 15–65	12,536,000	13,316,000 (estimated)	780,000
Males over 16 in Engineering, Shipbuilding, Vehicles, Iron and Steel, and Metal Industries	1,600,000	2,175,000 (January, 1922)	575,000

It is clear that the war diverted a large part of the labour of the country from the occupations into which the normal needs of commerce would have drawn it into the industries required by the war. The influence of this diversion is the greater since in certain directions it accentuated pre-war tendencies

* *The Third Winter of Unemployment*, J. J. Astor and others, chap. ii.

that were already operating to depress wages in certain occupations and raise them in others.*

An increase in numbers is not always accompanied by a relative fall in wages. In the case of the railway workers numbers have increased, and yet wages are relatively higher. This may illustrate the influence of the second set of changes —changes in organisation. It will be generally admitted that wage-rates are much influenced by trade-union organisation and other methods of collective bargaining. An organised trade is likely to secure a higher rate than an unorganised one would in circumstances otherwise similar; standard rates will have a wider authority and be more uniformly observed where the organisation extends over the whole of a trade and is not confined to a few favoured districts. Organisation is a condition of obtaining the highest wage that the trade at any moment will bear, and it is a means by which one trade secures better terms than other trades in the competition of all trades for the joint product of all.

The war and the post-war boom affected the relative strength of different organised groups in several ways. In the first place it gave certain trades, which had recently

* The movement into certain industries before the war was as follows:

UNITED KINGDOM: MALES AGED 10 YEARS AND UPWARDS OCCUPIED.

	1891.	1901.	*Per Cent. Increase.*	1911.	*Per Cent. Increase or Decrease.*
Coal and Shale Mines ..	596,000	749,000	26	1,016,000	35½
Metals, Machines, Implements and Conveyances	1,098,000	1,410,000	27½	1,672,000	18½
Ships and Boats only	97,000	127,000	31	163,000	28
Building and Construction	953,000	1,333,000	40	1,208,000	– 9
All occupied Males ..	11,463,000	12,951,000	13	14,308,000	14¾

extended and improved their organisation, an opportunity of exploiting their new powers more favourable than they could otherwise have hoped for. The railwaymen and the miners were the most important groups under this head. In both cases the trade-union organisation on the eve of the war had recently made itself national in its scope, and had defined a national programme, directed to securing improved rates and conditions and some approach to uniformity throughout the country. The Government control of the railways and the mines, with its pooling of the receipts of hitherto independent concerns, made this greater uniformity possible. Probably Government control also made it easier to raise wages; marginal firms no longer held down rates, political pressure could be added to economic pressure, the Government dare not, when irresponsible private employers would have dared, face a strike in an essential industry. It is significant that the Cabinet dare not even subject the mining industry to the jurisdiction of the Committee on Production, although the basis of its policy of wage control was to use the Committee on Production as the final unifying authority on wages. While, however, miners and railwaymen both gained from Government control during the war, the gains they were able to retain were very different. In the case of the miners, unification of the industry, which was essential if anything like uniform standards and conditions of labour were to be established, and which Government control involved, has been swept away. Forced to accept wages based on the commercial results of the industry organised once more on its pre-war basis, the miners have found the industry's profits and their wages reduced by the slump, for which the Government's mismanagement of the industry's markets was at any rate partly responsible, and have retained of their gains only the shorter working day and a wider district basis for wages.* The railwaymen have retained relatively more; a re-classification of grades that meant a general levelling up of wages, a wage agreement that ensures a considerable advance on pre-war real wages, and a shorter working day, representing a much greater increase in labour cost, since it is not possible in railway

* Written in 1923. These advantages also have now been lost.

working, as in mining, to increase production to a point at which the rate of output compensates for the reduction in hours. The reason of the difference is no doubt partly that mining is directly, and the railway industry only indirectly, dependent on export markets; but mainly that the unification of the railway industry effected during the war has not been allowed to lapse, the four groups under the Railways Act, with their statutory right to profits on the pre-war scale, constituting as effective a monopoly, from the point of view of the worker who is organised to share monopoly gains, as the Government control. The mining industry has got rid of the new labour that poured in during the war, the demand for its products continues to grow; it may be expected therefore, when trade improves, to resume the advance in wages and conditions that the war first accelerated and then checked. The railwaymen have probably achieved a permanent improvement in their position, even if they do not retain all their war-gains.

A second change in the organisation of labour, due to the war and likely to affect wages permanently, is the greatly improved organisation of general, so-called unskilled and semi-skilled, labour. For a number of reasons the war gave an enormous stimulus and support to the efforts of the general labour unions to extend their organisation. The depression of the last two years has caused a large falling off in membership; but the improved union framework survives, the membership is much greater than ever before the war, and the novel experience of union membership persists as a memory among millions of hitherto unorganised workers. Now it may be doubted whether differences of skill in the past would have had the influence they seemed to have on wages, if skill had not been backed by organisation. Today the inequalities in organisation have been largely redressed, and it is unlikely that the disparity of earnings between so-called " skilled " and " unskilled " workers will be as great again as it was before the war.

A third way in which a change in organisation has affected wages is in the great extension of the legal regulation of wages. The Government found itself compelled to fix by authority the wages of ill-organised and unorganised women workers

on munitions during the war. By the Wages (Temporary Regulation) Act it continued this protection for a year after the war. Since then it has provided a permanent safeguard, in the extended Trade Board system, against individual bargaining and the exploitation of the weakest wage-earners. If the use of Trade Boards, not only to protect unorganised workers, but to make effective standard rates in partly organised trades, survives the attacks that are being made upon it, the disparity in bargaining strength between trades that before the war were effectively organised and trades that were not will have been still further reduced.

To my third and fourth heads, markets and nature of work, I can do no more than refer. The former requires an examination of the world economic situation that would take too long, the latter a technological survey of industry that only technological experts could make. It is clear, however, that important and lasting changes have taken place under both these heads, and a consideration of them is necessary in settling any particular wage-claim. It is possible, for example, that the higher level of unemployment in the cotton industry as compared with woollen and worsted, wages bearing about the same relation to pre-war rates in both industries, is to be attributed to the greater dependence of cotton on export; and that in engineering important changes in methods of production, tending to increase the value of semi-skilled and diminish that of skilled labour, have had their influence only delayed by the Restoration of Trade Practices Act.

III

The changes we have considered so far are changes affecting the relations between wages in different occupations, the result of which will be to alter pre-war relations. It may seem that to attend exclusively to these is to neglect a more important aspect of the wages problem, that of the general level of real wages. The general level cannot, however, be regarded as altogether a separate question; it is only the average of the particular levels; when all the influences affecting these have been considered, the influences determining the general level must have been considered. As a

figure, it is the resultant of the figures of the particular levels, and its ascertainment must wait on the settlement of these. There is, however, a sense in which it is a separate question, or at any rate a question requiring separate consideration. In considering wages in a particular industry, it is natural to concentrate attention on the factors peculiar to that industry and to neglect wider underlying influences affecting the industry of the country as a whole. It is worth while, therefore, making an attempt to indicate and classify the wider influences which tend, not to raise wages in some industries and depress them in others, but to raise wages in all industries or to depress them in all.

The attempt is the more necessary inasmuch as, in considering wages in any particular industry, and making allowances for changes that have affected it peculiarly, it is necessary to frame some idea of the movement of wages as a whole, to serve as a sort of base-line from which to make these allowances. With pre-war wage relations dislocated and every trade uncertain where its wage level will settle, the actual average level will mean very little, and some estimate of the possible and probable general level after the war becomes necessary. It is the combination of this element with the other that makes disputes so difficult and obstinate, and prevents settlements from having any finality. Workers in trades that have improved their relative position resist reductions not only on selfish grounds, but also because they feel they are fighting the battle of the wage-earners as a class; while workers whose relative position has been worsened tend to regard the reductions, to which the state of trade has compelled them to submit, as merely a temporary concession, which will not prevent the recovery of their old relative position when trade improves.

This new aspect of the problem—the general influence of the war on wages and the resultant general level that individual trades must assume—is so vast and offers such unlimited scope for inconclusive estimates that I hesitate to approach it. If I offer a few fragmentary observations upon it, it is not because I believe they provide a satisfactory answer to the problems raised, but only because the general refusal to face the problem is obstructing any satisfactory

handling of post-war wages disputes, and merely to discuss it is useful. Moreover, in the absence of any discussion, the tendency is in public discussion to take the pre-war level of money wages, allow for the change in the cost of living as measured by the Ministry of Labour index-number, and take the result as a guide to what the post-war general level of wages should be. This procedure involves two unwarrantable assumptions: first, that the post-war level will be identical with the pre-war level of real wages; and, second, that changes in the cost of living may be taken as an index of what industry can pay in wages.

A priori it is unlikely that an event so great as the war would have no effect on the level of real wages; the general influences of the war, to which I shall turn in a moment, support this *a priori* conclusion. The habit of comparing wage-rates and cost of living is to be deprecated also because it tends to keep alive as a norm or standard the pre-war system of wages, and so to obstruct the modifications rendered necessary by the changes we have already reviewed. Cost of living is an unsafe index of what industry can pay, because the cost of living of the wage-earner depends mainly on the price of goods which British industry does not produce. We import half our food; our own activities are devoted largely to fine manufactures for export. It is necessary in the present unsettled state of credit and the currency to adjust money wages to changes in the value of money; but this should be done, if it is to be done automatically, by using an index-number of prices, in which the prices of the things that England sells have at least as much weight as the prices of the things she buys. As it happens, the movement of the cost of living since the war has not diverged greatly in time or direction from the movement of commercial conditions in general; but that is due to the inability of farmers in America and other new countries to curtail production of wheat and meat as soon as it became unprofitable. Once they have cut their losses, agricultural prices are likely to rise and to send the cost of living up; there is no similar reason for believing that industrial receipts will rise, so that, if we insist on basing wages on cost of living, we may make it impossible to employ even the present proportion of our industrial population.

Some consideration of the general influence of the war is therefore necessary. It seems to me it may be summed up by saying that the war reduced the country's economic resources and restricted its commercial opportunities.

The country's resources have been reduced. A country's chief resource is its working population, and it is a surprising result of the fall in the birth-rate during the war that the male population of working age increased more rapidly during the war than the total male population. But the industrial quality of this population was lowered. The 700,000 men whose lives were lost were most of them in the prime of life, trained and experienced in their work; the youths who have grown up to take their places have still to be made industrially, and a large proportion of them had their industrial training abbreviated, and their industrial experience at the most vital period interrupted, by war service. Moreover, of the surviving majority of the military population, a million are in receipt of disablement pensions.

By the side of the loss of labour force is to be set the loss of capital. While population has continued to grow, five years' normal additions to capital have been lost. Large additions to capital equipment for munitions purposes were made; but the value of this for the ordinary purposes of peace must be heavily discounted, and against it must be set the loss of material capital in commercial industry due to neglect of repairs and renewals during the war, of the magnitude of which the £60,000,000 compensation granted by the Government to the railways is an indication. Nor has any progress since the Armistice been made in repairing the loss of capital. The big figures of subscriptions to new industrial issues conceal a big reduction in the amount of saving; their size is due solely to the inflation of values. Converted to 1913 values at the average price level of each year, the £1,073 millions of new subscriptions in the four years 1919 to 1922 represent only £473 millions, little more than two years' saving at the pre-war rate.

These lessened resources are further reduced by the diversion into uneconomical channels that we have already noticed. The overcrowding of the munitions industries, the chief factor in disturbing pre-war relations between rates in

different occupations, involving as it has done the specialisation of labour to tasks for which the world at peace had little demand, is equivalent to a reduction in the amount of the labour exerted by the population. The similar diversion of capital is equivalent to a reduction of capital, which is expressed in the present-day Stock Exchange values of the securities of mushroom munition firms. The diversion of both labour and capital into these relatively unproductive channels continued right through the trade boom that followed the Armistice.

This reduction in the country's resources is reflected in the figures of physical volume of output in those industries in which we have any measure. Coal and pig-iron production, in spite of large increases in numbers employed, never reached during the boom 90 per cent. of the 1913 level; manufactured exports reached 80 per cent. of the 1913 volume in only one quarter. In steel production and shipbuilding there was attained for a short period a rate of output exceeding the pre-war rate; but it was followed by an equally exceptional decline in output and a growth of unemployment. The general reduction of hours led in most industries to a reduction in output, which has not been yet, though it may be in a few years, made up by an improvement in the pace of work.

While the country's resources have been reduced, the world's effective demand for the country's services has also been reduced. More than any other country Great Britain has built on world peace. In the nineteenth century we developed an industrial organisation of extraordinary efficiency for the purpose of supplying a world that is willing and able to take our products, but at the same time extraordinarily dependent on such a world. Any big changes in the direction of this organisation—whether to satisfying a larger portion of the country's domestic demand and a correspondingly smaller foreign demand, or in the way of compensating by an enlarged Imperial trade for the reduction in our European markets—involves a loss; it is an attempt to use the machine for a purpose different from that for which it was constructed; and, although a gradual change in direction is constantly going on, it is effected without loss

only because it is gradual and because it is the result of purely commercial, not political, influences. The war has affected both the willingness and the ability of the world to take British products—the willingness, because it intensified nationalist feeling and stimulated nationalist economic policies; the ability, because it dislocated the industry and reduced the resources of other belligerents as it did ours—and we are experiencing our dependence in the form of abnormal unemployment.

The significant features in our foreign trade are the reduction in the volume of our exports and the steady trend back to the pre-war distribution by markets. The volume of exports of United Kingdom products, as measured by exports at 1913 prices, reached its highest point since the Armistice in the June quarter of this year, when it was just over 80 per cent. of the 1913 volume. The trend of trade is indicated in the following table of percentages:

British Exports.

Percentage of Total Value to	1913.	1919.	1920.	1921.	1922.
British Empire ..	32·7	20·0	30·6	34·9	33·8
Europe	37·6	57·0	40·4	35·1	37·6
Non-European Foreign Countries	28·1	21·3	27·4	27·7	27·1
France	6·4	19·0	11·3	7·0	8·0
Germany	9·5	2·4	3·3	5·0	6·0
British India ..	11·3	7·5	11·8	13·8	11·3
U.S.A.	9·4	6·8	8·4	8·0	9·3

It does not look as if there were any easy alternative to our pre-war commercial relations; it is a world with similar, if diminished, wants that we have to work for. We may have gained at certain points—Europe is probably more dependent, not less, on British coal—but in the main the war has tended to reduce for the time being the country's real income from exchange, as it has reduced the resources with which it gains that income.

IV

There is not much justification in these facts for the common assumption that the pre-war rate of wages can be taken as a starting-point in wage discussions. Even if an

improvement in the world economic situation makes possible a restoration of the pre-war level of real wages on the average, the changes we have reviewed render it unlikely that all occupations will be able to secure full employment at that level. Some trades will have gained and some lost by the war.

We have to look elsewhere for an indication of the general level that post-war conditions will allow. The problem is to find some sort of a base-line, by reference to which allowance can be made for the various changes altering the relation of wages in one trade to wages in others. It arises because occupations vary widely in the speed with which they respond to changed economic conditions. At the one extreme are the iron and steel trades, that have accepted the full force of the commercial depression by sticking to their sliding scales, and, since 1921, the coal industry; at the other extreme are the employees of public authorities, effectively insulated from any immediate shock from changes in the economic situation. The cost-of-living sliding scale has done something to relate wages in the latter occupations to commercial conditions, but only by accident, so that they certainly cannot be taken as our base-line. The former group, on the other hand, exaggerates the fluctuations in wages which the change in the economic situation requires; nevertheless they form a better indication than the other group of the national economic fortunes.

The indication we are looking for is probably to be found in the important export industries. Just because they work for foreign markets, they are compelled to adjust their costs to a competitive level, and wages in them reflect the changed conditions of the post-war world. Moreover, a country dependent for maintaining a reasonable standard of life on foreign trade cannot for long allow the workers in industries working mainly or exclusively for the home market to enjoy better conditions than workers in export industries, without running the risk of starving the latter and so depriving the former of the source of their good conditions. Before this indication can be used, however, it needs correction in two or three respects. In the first place, some allowance has to be made for the inclusion in the average of industries like engineering, in which overcrowding induced by the war has

forced wages lower than they would have fallen if influences on the demand side alone had been operative. In the second place, allowance must be made for the effect of transient influences (at least, one hopes that they are transient), like the occupation of the Ruhr, that tend to depress wages in the more sensitive industries (or raise them, as in the case of coal) below the level which represents a fair allowance for the more permanent effects of the war. On the other hand, it is possible that wage-rates are still at a level at which full employment is unlikely in some industries, in which after great reductions unemployment is still four and five times as great as in a bad pre-war year. It may be undesirable to reduce them further in these cases, but the alternative is to check the influx of new labour and assist the efflux of labour at present dependent on these industries.

To conclude; the post-war wages problem is the problem of restoring to the wages system the stability that it possessed before the war. This can be done only by modifying the pre-war system to allow for the accumulated changes of five years of war. In making these modifications we are forced to seek some sort of a guide as to the general relation which post-war wages will bear to pre-war wages, and I have suggested that this guide is to be found, with certain corrections, in the average level of wages in export industries rather than in the pre-war level adjusted to allow for the increased cost of living. I have not tried to do more than define the problem, and to catalogue some of the factors in it that the union and association officials, arbitrators and others who fix wages will have to take into account, congratulating myself that I do not share their responsibility. But even this may be of use in view of the urgency and difficulty of the problem. Before the war a mistake in adjusting wages to commercial conditions was not serious; it might cause a slight increase in unemployment, but the rising tide of demand, as society got richer, would correct the mistake. Today, with perhaps a fifth of the labour force of the country standing idle, there is not the same certainty that society is getting richer. The problem of fixing wages is therefore more delicate and the stakes involved in every decision are heavier.

IV

THE POST-WAR WAGES PROBLEM—II.*

I.

In previous lectures† I have examined the pre-war basis of wages and the dislocation of that basis that the war involved. The problem with which industry has been faced since has been that of finding a basis on which wages could settle, so that the process of detailed (and normally peaceful) adjustment to detailed changes in the economic situation could be resumed. The only alternative to finding such a basis is a process of endless bargaining over fundamentals, with the risk of a national strike or lock-out every time a wage or condition of employment has to be changed. There can be no restoration of the relative stability that characterised industry before the war, when labour costs could be anticipated and plans safely laid for years ahead, unless a basis satisfactory both to employers and employed can be found. It may be worth while, therefore, to attempt an answer to three questions: In what ways have post-war industrial relations differed from pre-war ? In what directions must the post-war basis differ from the pre-war ? and What progress has been made towards restoring some stability to wages.

II.

The discussion of wage-claims, whether they originated with employers who claimed reductions or operatives who claimed advances, has been seriously complicated by the intrusion of factors that are either entirely novel, or that are so much greater in degree than before the war that their influence is a novel element in the problem. The general price-level for the first four years after the Armistice moved

* A public lecture delivered in the University of Manchester on November 15, 1927, and published in part in the *Manchester Guardian*, Industrial Relations Supplement, November 30, 1927.

† Cf. *supra*, I. and II.

with a rapidity and to an extent of which the pre-war generation had no experience. The commercial outlook at any moment was uncertain to a degree that was equally unprecedented. Even in the last six years, during which prices and commercial conditions have been so much more stable, the stability is obvious only in comparison with the preceding nine years; compared with the pre-war decade prices have moved extensively, and commercial conditions have changed violently.

More important even, for the purpose of wage negotiations, has been a change in the temper, and certain changes in the methods and organisation of the wage-earners in industry. The war and the post-war boom raised their expectations. It is unnecessary to elaborate this; the new experience of indispensability during the war, the deference of Governments, the promises of politicians, the spectacle of unprecedented profits easily won and lightly spent, the expansion of State activity, the general dislocation of pre-existing social arrangements, all conduced to the same result. Unfortunately these changes had done little to increase and much to reduce the means which industry could draw upon to satisfy such heightened expectations; production per head declined, as wages, under the stimulus of inflationary finance, advanced. Trade-union organisation had extended and the balance of advantage in the fundamental though unnoticed struggle between industries for society's income had shifted. The wage-earners in the so-called "essential" industries, railway and docks, ill-organised and among the lower-paid classes before the war, found in the war control the opportunity of securing recognition for the unions, and definitely raised their economic level. The miners secured, though they have since lost, the right to national settlements in all general wage changes. In general, the process of amalgamation and federation, encouraged by the national hearings and awards of the Committee on Production during the war, has made a change in trade unionism. A new type of official is needed for these great national societies, one possessing the qualities of a successful politician even if he has no wish to engage in politics, and the old type of local official, who understood local circumstances and from long

contact realised the employer's difficulties (or saw through the employer's bluff) is less influential. The transition is not, however, complete, and one of the troubles of the post-war period has been the attempt of the miners to conduct national negotiations with a headquarters staff that would be inadequate for a union with one per cent. of the Federation's membership.

With the new temper and the new organisation have arisen a new type of claim and a new method of enforcing claims. Before the war unions did not always take the employers' protestations of inability to pay as scientifically established limits, and did not restrict their demands to what the less efficient and worse equipped firms could pay; but they did not base claims to increased wages upon the hypothetical results of a reorganisation that had still to be effected. Since the war the spokesmen of labour have on many occasions refused to accept as a valid answer to their claims evidence that the industry as at present organised could not meet them; they have argued that industry ought to be able to meet them, and could be made to meet them by a reorganisation which they demanded. The complication which such claims introduce into wage negotiations is obvious. Since employers are not usually organised for the purpose of such collective reorganisation of their industry, the intervention of the State is necessary to secure it, and the wage difference becomes a political controversy. To raise the question of reorganisation every time a wage change is discussed is to introduce a new element of uncertainty into business in a period when business is uncertain enough without it. The workers in the industry would gain, rather than lose, by specialising their activities, demanding the consideration of their proposals on their merits through the ordinary channels of political agitation, and confining the weapon of the strike to securing the best wages that the industry can pay with its present organisation. To pay increased wages on the strength of the hypothetical economies of an untried proposal is akin to the payment of dividends out of capital on the strength of a reorganisation that has still to prove itself. An additional reason for reserving proposals for reorganisation for political consideration is

that politicians, who have never had to run a business of their own, are likely to give a much more sympathetic consideration to schemes put forward by advocates, who also have never run a business of their own, than are mere employers, who have had that experience.

This new type of claim leads naturally to a new method, the use of the strike to inconvenience, not so much the employers, as the consumers of the industry's products, and so to induce the Government to compel the employers to concede what is claimed. The success of the miners' strike in 1912 in securing from Parliament the minimum "fall-back" wage, which the mine owners had refused to concede, conveyed a lesson which was readily learned and frequently applied. The Trade Union Act of 1927 does not apparently make such action illegal, unless undertaken by a combination of unions.

III.

The levels of wages left by the war could not be maintained, because they were adapted to the abnormal and transient needs and conditions of war. The levels that existed before the war, although they are constantly referred to and used, sometimes as a standard and sometimes as a minimum, cannot be accepted as norms without question, since the war has swept over the world in which they were established. The influence of the war was twofold: it compelled some adaptation, in spite of the Government's resistance, to temporary and transient war conditions, and it stopped adaptation to other changes that were proceeding before the war and might be expected to continue after. We have to take account of both influences, since there is likely to be continual disturbance, or at any rate uncertainty, until the special and abnormal effects of the war have been reversed and until the adjustment of wages to normal or peace-time changes has been resumed.

The special effects of the war are illustrated on p. 95 by the divergent movement of wage-rates in different occupations since 1914.

No table could display in all their complexity the variations about the general trend upward and down again of wages in different industries, different districts, different

Industry and Occupation.	*Percentage Increase over* 1914.			
	Rate.	*April,* 1919.	*December,* 1920.	*September,* 1927.
Engineering:				
Fitter ..	weekly time	98	130	49
Labourer ..	,, ,,	156	210	82
Building:				
Bricklayer	,, ,,	76	148	82
Labourer ..	,, ,,	118	224	107
Coal-mining ..	average earnings	110–120	185–190	52
Cotton ..	addition to list	105	215	86
Printing:				
Hand comp.	weekly time	100	162	107
Boot and Shoe:				
Skilled men	minimum time	87–93	120	100
Railway:				
Goods' Porter	weekly time	180	260–270	145
Foreman ..	,, ,,	69	135–140	100
Docks ..	daily	100	200	90–140
Blast furnace:				
Labourer ..	percentage increase under sliding scale	100–200	300–350	70
Steel Smelter	percentage increase under sliding scale	100–200	150–200	20
Agriculture:				
Labourer ..	weekly time	83	175	76

NOTE.—In most cases hours of work are less in 1914, so that the increase in hourly rates will be greater than in weekly rates.

grades and classes of workers. The chief influences, however, can be distinguished. The most important was the shift of demand—from all industries to the munitions industries and from production for export to production for home or military consumption. With this went a change in demand for different grades of labour; unskilled men's and women's labour acquired a new value, especially after the development of mass-production methods in munitions industry. The changed demand was reinforced in some cases by the influence of the war on supplies of labour; the check to building, the early enlistment of large numbers of building operatives, and the diversion of the new generation of workers into munitions work depleted a supply of building artisans that was declining probably even before the war. The Government's attempts to control wages, although they

did not have altogether the effect intended, were not without influence. The system of awarding flat-rate cost of living advances, calculated on the needs of the lower-paid classes, had the effect of giving these a higher proportionate advance than the higher-rated classes, and so of lessening the difference between their rates. Women's wages on the whole probably benefited in the same way; and the influence of Wages Orders during the war was continued after the war by the Wages (Temporary Regulation) Act and the great extension of Trade Boards Wage Orders. The system of national awards, where local advances had been the previous practice, was the chief cause of the coal stoppage of 1921. A consideration of wages in 1919, or even 1920, will not, however, indicate all the effects of the war. The more general changes in economic conditions, directly attributable to the war, revealed themselves more slowly, though soon enough. The disorders of national finance and the consequent collapse of currencies; the impoverishment of continental Europe, and indirectly of the extra-European countries that depended on the Continent for a market; the nationalist economic policies that have opposed new barriers to the free movement of trade; are factors tending to cause a level of wages and employment in export industries lower than in industries working for the home market.

It is more difficult to discuss the more permanent tendencies of change which the war masked, in some cases holding them up or counteracting their effects, in others accelerating and intensifying them. There were shifts in demand before the war, the effects of which have only been felt since the war. Coal is an example. Even before the war, oil and hydro-electric power were competing with coal, and methods of economising coal were constantly being found; these changes were masked by the transient and artificial scarcity of the war and the post-war boom, and the unfortunate industry was faced with the results of the developments of a decade as soon as prices broke at the beginning of 1921. The disorganisation of the competing Ruhr field from 1922 to 1924 offered a temporary reprieve, but made the ultimate collapse even more complete. Contrast with coal the growth of the chemical industry. The war encouraged this growth,

and there was a 25 per cent. increase in the numbers engaged in it between the censuses of 1911 and 1921; but the tendency to grow was as marked before the war, the rate of increase in numbers engaged being even greater between 1901 and 1911.

We are inclined to attribute our losses in export markets to the war; and justly, since the war, by interrupting our trade, gave native producers and foreign competitors in our overseas markets the opportunity of establishing themselves. But this competition was growing before the war; in the most striking instance of such loss, that of the cotton industry, Professor Daniels and Mr. Jewkes have shown, that while Lancashire's share of the world's export trade in cotton manufactures fell from 73 per cent. to 57 per cent., the post-war magnitude of the Japanese and Indian industries was no greater than a mere continuation of the pre-war rate of growth, without any stimulus from the war, would have given. The shift of population, that we tend to look upon as a war-time and post-war phenomenon, is not new. The expansion of coal-mining before the war was maintained almost entirely by the development of new fields; the older fields were constantly using up their resources, their populations migrating to new fields; and the prosperity that concealed from the industry the growth of competitive substitutes stopped also the piecemeal transference of labour that should have been spread over ten years, with the result that transfers fell to be dealt with all at once. In engineering, it is possible that technical changes were going on before the war that would have reduced the value of the apprenticed artisan and raised that of the unskilled worker and semi-skilled worker even if there had been no war-time mass-production in engineering.

The changes in the demand for different kinds of labour are not then all attributable to the war. It is probable that the war masked other changes that were proceeding before the war. The decline in saving has been noticeable since the war; but the changed outlook on life of which it is a result is not so new. It affects industry, and therefore wages, in three ways; the expansion of industry cannot be so rapid as it would be with ampler capital accumulations; it affects the export industries, because they used to be sustained by

the large exports of capital; and it involves a transfer of demand from the equipment industries, which are kept busy by new investments of capital, to the luxury trades, which flourish when people "spend" instead of "saving." The improved organisation of the poorer-paid occupations had, as we have already seen, begun before the war; the Trades Boards Act was already on the Statute Book. In principle all the social legislation which has supplemented wages and added to manufacturing costs so largely since the war was in operation before the war.

To sum up: The war attracted labour into industries—for example, engineering—in which there would be a diminished demand for it when the war ended; it prevented the movement of labour into industries—for example, building—in which additional supplies would be urgently required when peace came; it kept it in industries—for example, coal and cotton—and localities in which the normal demand was certain to decline. Thus it left the country with an uneconomic distribution of its labour for the purposes of post-war industry. Its duration, coupled with the influence of Government regulation, established new standards of wages that bore a differing relation to different grades of skill from that which pre-war standards bore. It had a special effect on the equipment industries, expanding them enormously at a time when there were permanent forces at work tending to lessen the rate of their growth; and upon export industries as opposed to industries working for the home market, by reducing the demand for their products and handicapping them in the task of meeting competition. To the intrinsically difficult problem of effecting any settlement of wages at all in the uncertain and rapidly changing post-war world it added the even more difficult task of finding a new basis for stability by allowing for all these changed factors. It remains to see what progress has been made towards such a restoration.

IV.

Progress has been slow, and it does not appear that industry even now has arrived at a set of rates which are in stable relation to one another. The period has been one of

great difficulty, and the machinery for considering wage changes is imperfect. The period has been difficult, because in it industry has had to adjust itself to two important changes in the general level of prices, first in 1920 and 1921, when the period of inflation was brought to an end, and again in 1925 and 1926, when the final steps in the restoration of the gold standard were taken. Not much consideration to the needs of industry and the effects upon wages would appear to have been given when the successive decisions which have brought the price level down and restored the gold standard were taken. The general movement of money wages has obscured and rendered more difficult the adjustment of particular rates to the special circumstances of particular industries. The machinery for considering wages is defective, because there is no co-ordinating authority or agency in a position to draw the attention of any one industry to the contemporary movements in any other. The need of such co-ordinating action has been realised, and the Government was urged by the National Industrial Conference of 1919 to convene a series of conferences in order to deal with the question of temporary war-changes in wages, and to establish a permanent Industrial Conference; but the Government ignored these, as it did most of the other recommendations of the Conference it had convened. The unions have a central organisation in the Trades Union Congress General Council, and the employers' associations in the different industries are linked together in a Confederation of Employers' Organisations; but neither of these federal organisations has, so far as the outside public can perceive, exercised any co-ordinating function; each has preferred in every dispute to back up the claims of its affiliated organisation, irrespective of the relation of that claim to wages and conditions in other industries.

Changes, then, have been effected by unco-ordinated action industry by industry. These have taken the form either of withdrawal of war and post-war advances, reductions under sliding scales based on the cost of living, or reductions under sliding scales based on the selling price of a representative product. The withdrawal of war advances has not, however, enabled the industries in which the process

has been carried farthest to give full or even average employment to the workpeople dependent on them; recently the engineering employers have felt compelled to concede a small advance to the lower-paid workers in the industry, in spite of a high unemployment percentage and a negligible average profit on turnover. Similarly, in the iron and steel industry in some districts, some limit has been imposed, although the agreement does not provide for it, to the fall in wage-rates that the fall in selling prices automatically brings with it. In the coal-mining industry, in which a special arrangement for relating wage-rates to commercial proceeds has been in operation since 1921, the operation of the automatic device is limited by various minima, and wage-rates have actually been determined by these minima for a large proportion of the industry during a large proportion of the operation of the agreement. In all these cases it has been realised that it is not practicable to adjust wages and employment to post-war commercial conditions merely by reducing wage-rates; and yet the reduction has been carried so far that the relative position of the majority of the workers in these industries compared with the workers in other industries has changed materially and is out of relation with the skill and other qualities required in their work.

Cost-of-living scales have operated chiefly in occupations, such as public employment and railway service, in which the connection between commercial conditions and wages is indirect. They have ensured some correlation between wage-rates and the general condition of industry, but not an exact correlation; rates have not been reduced from the boom level as much as in the group just considered. The fall of money wages, therefore, has not had the effect of correcting the divergences between different trades which the upward movement produced, but rather of perpetuating some divergences and introducing others. If, as it is reasonable to assume, there was any correlation between wage-rates and skill and responsibility before the war, the correlation is much less close today; and if skill and responsibility are necessary to industry and in the long run have to be paid for, the present scale of wage-rates in industry requires a good deal of modification.

One further point: wage-rates on the average are as much above the pre-war level as is the cost of living; both the Colwyn Committee's and the Balfour Committee's reports support this conclusion. Average money earnings have almost certainly risen more than the cost of living, since the increase in real wages in the lower-paid classes more than compensates for the decline among the higher-paid classes, and because earnings generally have risen more than rates. This maintenance of real wages has, however, been associated with a high level of unemployment. Apart from fluctuations caused by seasonal and monetary influences and by disputes in the coal-mining industry, unemployment has remained at the high level of approximately one worker in ten ever since the first recovery from the depression and the coal stoppage of 1921. This is evidence of a maladjustment to the economic conditions to which post-war industry has to adjust itself; taken with the divergence of present rates from the pre-war relations between rates for different grades of skill, it points to the need for further change in industry before there can be any stability.

V.

It is clear then that although some progress has been made towards the establishment of a new set of rates, adjusted to the present capacity and needs of industry as pre-war rates were adjusted to pre-war industry, much still remains to be done. Where, on the one hand, the change in commercial conditions has been met by forcing real wages down without thereby providing full employment, the workers may acquiesce but they are not content. Where, on the other hand, a group of workers have been able to exploit a favourable situation to raise their real wages, it is not certain that they will be able to maintain their advantage. The instability and uncertainty that have been the chief obstacles to satisfactory wage settlements since the war remain. Before stability can be restored rates of wages must be brought into some relation both with the varying capacity of different industries and with the varying degrees of skill and responsibility required for different tasks.

The root of the present disorder would appear to be a

maldistribution of labour brought about by the war. Owing to the positive influence of the war in attracting labour into munitions industries and its negative influence in preventing an adjustment that would otherwise have taken place of labour supplies to changing needs, it produced the present overcrowding of the metal and coal industries; at the same time the expense and dislocation caused by the war reduced the world's demand for the products of some of our chief export industries. The disparity in wages, which is such an obstacle to satisfactory industrial relations, is mainly a consequence of this maldistribution. Either the country must carry through a redistribution of its labour force, promoting migration and financing retraining—a policy for which neither the machinery nor apparently the will exists—or it must wait for the slow and painful redistribution which is being effected by the curtailment of recruiting in the low-paid and under-employed industries, coupled with the inducement to enter other industries offered to the rising generation by higher wages and better employment.

The drawback of this latter alternative is that it defers any settlement of the wages problem until a redistribution of labour has taken place of its own accord; a change that could not be effected in less than a generation. No policy of wage regulation by itself can cure the maldistribution, because it is not practicable to force wages in the overcrowded industries down to the level at which all the workers in them could be absorbed in employment, nor probably to raise them without causing more unemployment; and the reduction of wages in the more fortunate industries, even if it eased the difficulties, by reducing the costs, of the depressed industries, would lessen the existing incentive to labour to shift from the overcrowded to the developing industries.

In the circumstances, the work of trade-union officials and employers' representatives on conciliation boards and Industrial Councils must have an intrinsic difficulty that it had not before the war, and calls for a width of knowledge and a statesmanship in negotiation that were not called for before the war. The worst disservice that anyone can perform to industry today is to suggest that wages problems are simple, or susceptible of any single or simple solution.

V.

UNEMPLOYMENT AND WAGE-RATES*

I.

Professor Pigou's article on "Wage Policy and Unemployment"† raised an issue of immediate practical, as well as theoretical, interest. It was directed mainly to an examination of the theoretical possibilities of relieving unemployment, without reducing wages, by means of protective duties or subsidies; but the occasion of the investigation was the abnormal unemployment from which British industry has suffered since 1921. This abnormal unemployment, which he suggested might amount to 5 per cent., Professor Pigou attributed to the maintenance of wages at too high a level. He referred to one other possible cause, maldistribution of labour, due to expansion during the war of industries producing munitions; but he referred to it only to dismiss it—"had this been a dominant factor . . . we should have expected to find a marked shortage of labour in important groups of industries to balance the excess in engineering, shipbuilding and so on; and of such marked shortage there is no sign." He cited and supplemented M. Rueff's figures of the correlation between real wages and unemployment, but based his conclusions on more general considerations. He expressly guarded himself against the practical inference that wage-rates must be reduced and against the assumption that wages in *all* industries are "too high"; so that Professor Pigou's authority cannot be used by employers in any of the current wage negotiations.

With these qualifications the broad conclusion, that full employment is impossible under existing circumstances with the present rates of wages, is probably unavoidable. At the

* Reprinted by permission of the Editors from the *Economic Journal* of March, 1928.

† *Economic Journal*, September, 1927, pp. 355-68.

same time the relation between wage-rates and employment is so far from simple that some further discussion of the question may be permitted. Professor Pigou's argument suggests three comments. In the first place, it might be taken to imply that an uneconomically high level of wage-rates and an ill-adjusted distribution of labour are the only possible causes of the present abnormal unemployment. In the second place, by taking account only of the relations of " the general body of wage-rates," the " rough average " of wage-rates, " the general level of wage-rates," with the percentage of unemployment in industry as a whole, the argument gives inadequate consideration to the alternative, ill-adjusted distribution of labour, that it dismisses. In the third place, since the distribution of labour has an important influence on the productivity of industry, and therefore helps to determine the wage economically possible, it is not easy to separate the two, and to treat the wage level and the mal-distribution of labour as independent factors in the causation of unemployment; if labour is ill-distributed, production per head will be low, and the average wage compatible with full employment will be low; if labour is ideally distributed, production per head will be high, and the average wage compatible with full employment will be high. I will elaborate briefly these three comments in the following sections.

II.

Since it was not the primary object of Professor Pigou's article to analyse the post-war problem of unemployment, the omission of any reference to causes other than those mentioned was quite defensible. In actual wage negotiations, however, the representatives of the wage-earners have usually a good deal to say about causes of unemployment other than " high " wages. The level of wages affects employment by affecting costs, and the present average level is alleged to be " too high " because it is higher than before the war while production per head has declined. But wages are not the only element in the costs of industries suffering from unemployment that has risen disproportionately. In some industries capital charges have increased disproportionately,

and, although capital is being written down and obligations liquidated, or high charges incurred in 1920 and 1921 are being replaced by loans at lower rates of interest, the burden is still probably heavier than before the war. In the section of the cotton spinning industry that was recapitalised in 1919 and 1920, loan charges require in the aggregate a sum at least three times as great as the aggregate distribution of profits in a pre-war year. Credit again costs more than before the war, and many firms are paying interest, in pounds worth fourteen and sixpence in pre-war money, on overdrafts incurred when the pound was worth only eight pre-war shillings. A considerable enhancement of costs is due to the policy of restriction of output, by short time and other methods, that has been adopted in some industries to keep up prices during the depression. The war encouraged monopolistic combination, and war and post-war profits strengthened combinations that were in existence before; some of these combinations are accused of increasing costs by charging disproportionately for their part in the making of a product that involves the co-operation of several industries. High direct taxation may have an influence, even if it is impossible to "put income-tax on to prices," by deterring business-men from undertaking deals which do not show a reasonable prospect of a margin of profit higher than was required to tempt them before the war. Taxation is an undoubted addition to costs and check to employment when it is imposed as a charge on industry, to be borne whether the enterprise yields a profit or incurs a loss, as the greater part of the cost of relieving unemployment is imposed, in the form of contributions to the unemployment insurance fund and local rates. In very few industries is it clear that a reduction in wages would by itself do much to stimulate employment; and, while an all-round or average reduction might have a certain and predictable effect, organised labour will resist any reduction so long as it can point to other costs that have risen proportionately more than, or as much as, labour costs.

It may be argued that other influences, so far as they affect employment, affect it by reducing the rates of wages that are economically possible so long as their operation is un-

checked, and that it is therefore unnecessary to consider them separately in an examination of the relation of wages and unemployment. Some reference to them is, however, necessary, since, as Professor Pigou points out in the special case of the slump of 1920-1, the " uneconomical " level of wages may be " predominantly an effect, just as the growth in unemployment was an effect, of the general causes lying behind the slump." And practically it is important to bring this out, because the acceptance of " high " wages as the sufficient cause leads to a policy of holding wages down and waiting for the post-war problem of unemployment, " so to speak, to solve itself "; whereas, if it be recognised that the " uneconomical " character of existing wages, which are in themselves low, is itself an effect of other causes, we shall be forced to investigate those other causes before we acquiesce in the present level of wages in the depressed industries.

III.

The extent and influence of the maldistribution of labour caused by the war can be realised only if a more detailed comparison of wage-rates and unemployment is made than Professor Pigou found necessary for his limited purposes. The indices he uses, Professor Bowley's index of weekly wage-rates and the trade-union unemployment percentage, are very differently weighted. The Engineering-Shipbuilding group of industries (which Professor Pigou notes as exceptional) has a weight of only two parts in eleven in the wage-index, but of seven parts in sixteen in the unemployment index; the exact significance of any correlation observed requires, therefore, an examination of the components of the two indices. Again, both indices are averages of widely divergent series. Weekly wage-rates in September last, according to the Ministry of Labour calculations, ranged from 120 per cent. of the 1914 figure in the case of Iron and Steel workers in South Wales to 245 per cent. of 1914 in the case of Railway Porters. A general unemployment percentage at the same date of 9·3 per cent. was the resultant of rates varying from 32·4 per cent. in Tin Plate to 1·2 per cent. in Slate Quarrying. Coal, with earnings averaging 52 per cent. above 1914,

accounted for nearly a quarter of the unemployment in Great Britain in September, 1927, while in September, 1923, with earnings 10 per cent. higher for a week 12 per cent. shorter, it accounted for less than 3 per cent. of the unemployed; on the other hand, General Engineering, with skilled rates 42 to 45 per cent. above pre-war in 1923, showed 137,000 unemployed, while in 1927 rates were rather higher at 48 or 49 per cent. and the number of unemployed down to 60,000. It is possible, therefore, that a rise in the general wage-index might be accompanied by a fall in the general unemployment index as a result of a shifting of labour, which made it possible to raise wage-rates in the industries from which the shift took place more than it was necessary to reduce wages in the industries into which labour moved; this, in fact, as will appear later, is what is happening.

A high average wage level may be causally connected with a high percentage of unemployment in industry in three ways:

1. All or most of the wage-rates may be "too high," having moved up together, or stayed up together when prices fell, thus causing generally diffused unemployment in industry.
2. Some wage-rates may be "too high," thus causing in the industries in which they have to be paid the bulk of the unemployment in the country.
3. Some wage-rates may be "too high," not in the sense that they cause unemployment in the industries in which they have to be paid, but in the sense that they involve a level of charges to other industries, that depend on them for services or products, so high that unemployment is caused in these other industries.

The following table gives the Ministry of Labour's estimate of wage levels for industry as a whole and for certain industries separately, and the unemployment percentage similarly for industry as a whole and for the selected industries; the industries selected are those in which material for the comparison is available.

	Relative Levels of Weekly Rates of Wages (September, 1927), as Percentage of August, 1914.	*Percentage of Insured Persons unemployed (Great Britain and North Ireland), September 26, 1927.*
All trades	170–175	9·3
Building	197	9·1
Coal (earnings)	152	19·1
Engineering: Skilled	149	10·0*
,, Labourer ..	182	
Shipbuilding: Shipwright ..	135	21·8
,, Labourer ..	168	
Electrical Installation ..	191	5·7
Iron and Steel	120–170	11·8–32·4
Cotton	161	9·3
Wool Textile	180–190	8·2
Hosiery (Midlands)	158⅓	5·7
Boot and Shoe	200	8·2
Railway Service	200–245	4·6
Docks, etc.	190–240	22·1
Printing: Compositor ..	207	4·3
Furniture: Cabinet-maker ..	184	4·5
Baking	214	6·0
Pottery	150–161¼	12·3
Heavy Chemicals	205–215	6·2†

* "General Engineering: Iron- and Steel-founding."

† Average of "Chemicals Manufacture" and "Explosives."

It is apparent at once that the present relation between wage-rates and unemployment approximates to the second case we distinguished rather than to the first. There is general unemployment; but it is least where wage-rates are highest by comparison with the 1914 standard, and worst where wage-rates are lowest. With only two exceptions in the table an unemployment percentage above the average is associated with a wage level below the average, or *vice versa*. Moreover, although there is general unemployment, there is a noticeable concentration of unemployed in a limited group of industries. Coal, Iron and Steel, Shipbuilding, General and Marine Engineering, with less than a fifth of the insured population in them, account for over a third of the unemployed; add Docks, Shipping, and the principal Textile industries, and the proportion of un-

insured population is only 30 per cent., but the proportion of unemployed over half.

By itself this unequal distribution of unemployed among industries would be consistent with the hypothesis that "high" wages are the sole or chief cause of the present unemployment. Before the war the constructional and equipment industries, which are the chief members of the depressed group now, were usually more intensely affected by trade depression than were other industries. And the absolute level of unemployment in the less depressed industries now is high by comparison with pre-war experience. It is the association of low wage levels and high unemployment percentages that is significant, and that makes it difficult to accept the hypothesis that high wages rather than maldistribution are the explanation.

Before the war wage levels were adjusted, not only to the openings for employment, but also to the different degrees of skill and responsibility involved in different tasks. The adjustment was very rough; but a marked divergence of wage-rates from what may perhaps be called skill parities would have provoked a movement of labour that would correct that divergence. Wages tended to be "fair" in the special sense which Marshall gave to that epithet,* because that was involved in the broad adjustment to conditions of supply as well as demand which, as Professor Pigou points out, wage-rates attained. But that adjustment has been lost; the pre-war relation between rates of wages and levels of skill has been dislocated. Not only are the rates of fitters and miners too high to permit the employment of all the fitters and miners seeking work; they are too low to afford the fitters and miners who are in work an income "on a level with the payment made for tasks in other trades which are of equal difficulty and disagreeableness, which require equally rare natural abilities and an equally expensive training." If then "fair wages" are, as Professor Pigou has explained,† "a necessary correlate of . . . the ideal distribution of labour," the present divergences from "fairness" are proof of a bad distribution of labour. If there were no unemployment, the divergence of wage-rates from pre-

* *Cf.* Pigou, *Economics of Welfare*, p. 520. † *Loc. cit.*

war skill parities would point to an uneconomic distribution of labour; if there were no such divergence of wage-rates, but a concentration of unemployment in a limited group of industries employing a minority of the workers of the country, we should again suspect an uneconomic distribution of labour; when we find exceptional unemployment in conjunction with, and in spite of, exceptional reductions in real wages, do we need further evidence of maldistribution of labour? Labour is crowded into occupations in which it yields only a low economic return, while in other occupations in which it would yield a higher return, employment is restricted.

We are confirmed in this conclusion if we glance at the particular circumstances of the industries which account for most unemployment. The Iron and Steel, General Engineering and Shipbuilding group had at the time of the last count an insured population of 1,100,000, of whom 152,000, or 13·8 per cent., were unemployed. The influence of war-induced expansion is clear enough here. Between the two censuses of 1911 and 1921 the group in which these industries fall increased by 40 per cent.; four-fifths of the entire increase in the occupied male population was in this group. Not only did the war, by directing such a disproportionate number of the new recruits to industry into this group, create an inevitable problem of unemployment when the war should end, but, by inducing a similar expansion in other countries, it aggravated the effects of overcrowding, forcing down prices and with them wages. The influence of the war in the coal-mining industry, which in July had an insured population of 1,198,800 and accounted for nearly a quarter of all the unemployed, is less obvious but none the less real. It took the form of checking for six years the necessary adjustment of the industry to technical changes in other industries, which reduced the demand for coal, and to exhaustion of pits, which called for the transfer of workers to expanding fields or to other industries. Even before the war the growth of the industry was due to the continuous opening up of new pits rather than, as in other industries, to the expansion of existing concerns; at the end of the post-war boom the industry found itself faced with the

necessity suddenly of adjusting itself to six years' accumulation of economic change. The transient prosperity caused by the closing of the Ruhr pits during the French occupation and the grant of a subsidy in 1925 and 1926 encouraged the industry to defer the unpleasant business of facing the new situation. The loss inflicted by the war on the two great textile industries was rather different in kind. By interrupting their connection with the export markets it gave an opportunity for local manufactures and other exporting countries to establish themselves in what had been predominantly or exclusively British markets; the post-war depreciation of the exchanges of competing countries and the appreciation of sterling have hampered British exporters in such attempts as they have made to recover lost markets, and a contraction of volume appears to be inevitable.

There are large numbers of unemployed in certain industries, however, in which wage-rates are relatively high, the largest group being in Docks and Building. Maldistribution of labour would appear to be the underlying cause in these industries also. Docks have for generations been the chief centres of casual employment, a system that, quite irrespective of wage-rates, attracts and holds more workers than can be given employment. In the case of Building, the limits to the employment of other workers are set by the supply of bricklayers for outside work and of plasterers for inside work. In July last, while the percentage of unemployment for the industry as a whole was 6·8, for bricklayers and plasterers it was only 1·6 and 1·5 respectively.

There is a possibility still to be examined, that wage-rates in some industries by imposing an undue burden on other industries may cause unemployment in these. The direct effect of such high rates cannot be great. Among the industries in which wages have advanced most, Printing, Boots and Shoes, Baking, Heavy Chemicals, do not contribute a large proportion to the expenses of the depressed industries; so far as it lies at all, the charge must lie against the transport industries, especially Railways, Coal, as the chief source of power, and local and central government as the source of rates and taxes. Now railway wages have gone up much more than railway receipts, which on the average of the four

years since the present groups were constituted are only 52 per cent. above 1913, considerably less than the rise in wages. It follows that the higher wages are paid at the expense of the shareholders rather than the railway users, and any reduction in them would be for the benefit of the shareholders, since the railways have so far not earned the restricted standard revenue to which the Railway Act of 1921 entitles them. Coal prices are much below the average of prices, as are miners' wages below the average of wages; the miner has made a larger concession to reduce the costs of other industries than any other class—some of the benefit of which goes to the foreign competitors of British industry—and could make a further concession only by accepting a rate of wages out of all relation to the nature of his work. There remains the burden of rates and taxes. This is heavy, but is attributable rather to new functions imposed by Parliament on central and local authorities than to high rates of pay for public servants. The disparity of payment in different occupations is a factor in causing industrial unrest; but it is only one among a large number of factors that tend to make manufacturing costs in the export industries high.

I conclude that so far as "high wages" are the explanation of the present unemployment, it is the low wage-rates of the depressed industries that are "too high," not the high wages of the prosperous industries.

It remains to consider Professor Pigou's reason for rejecting maldistribution as the explanation of the present unemployment; that excess in one industry would have been balanced by shortage in others, and of such shortage there is no sign. It is not clear what sign is expected. Overtime, unlike short time, is not registered; but some overtime is being worked. Employment Exchanges are unable to fill all the vacancies notified by employers, though they fill eight out of nine as compared with four out of five in the two pre-war years. There are striking variations in the extent of unemployment in the different Exchange Divisions, varying in July from 4 per cent. in the South-Eastern to 19·2 per cent. in Wales. Even General Engineering had an unemployment percentage of under 5 in London and the two Southern Divisions taken

together. The "marked shortage" of bricklayers and plasterers has been referred to. It should be remembered that before the war a general unemployment percentage of 2 was not abnormal in times of boom, when all industries were crying out for labour. Such indications of unsatisfied demands for labour are, however, exceptional; unemployment is not confined to the overcrowded industries. At the same time it does not seem to be correct to say, as Professor Pigou says, "We are not entitled to presume that, in the absence of any other change, a mere shifting of workpeople away from the war-swollen industries would have enabled any large number of them to find work." Such a shift is actually taking place on a large scale, and has already relieved unemployment to a marked degree, without any general reduction in wage-rates. This movement is indicated in the following table, based on the fuller tables of numbers insured and unemployed in the *Ministry of Labour Gazette* for November, 1923, and November, 1927.

Doubtless other influences have been at work; but, as between wage adjustments and shifting of labour from war-swollen industries, it is the latter that appears to have influenced employment the more.

EXPANDING INDUSTRIES.

	Increase, July, 1923—July, 1927.		*Unemployment Percentage.*	
	No.	*Per Cent.*	*July, 1923.*	*July, 1927.*
Distributive Trades ..	327,090	26·1	6·2	4·4
Building and Contracting ..	173,200	20·5	13·1	8·5
Road Transport	49,840	19·4	11·2	9·3
Motor Manufacture, etc. ..	41,030	21·4	9·6	7·9
Brick, Cement, etc. ..	35,680	40·5	8·9	4·9
Printing, etc.	28,770	12·6	5·6	4·3
Furniture	20,390	21·7	7·7	4·6
Shipping, etc.	18,730	12·3	18·6	14·3
Electrical Engineering ..	18,340	30·1	7·2	4·8
Artificial Silk, etc.	17,770	47·6	6·7	6·6
All expanding	874,740	17·4		

CONTRACTING INDUSTRIES.

	Decrease, July, 1923— July, 1927.		*Unemployment Percentage.*	
	No.	*Per Cent.*	*July, 1923.*	*July, 1927.*
General Engineering ..	66,560	10·0	20·3	9·2
Shipbuilding	53,940	20·0	43·2	22·3
Coal	44,590	3·6	3·0	21·5
Woollen and Worsted ..	20,240	7·5	9·3	9·5
Iron and Steel	16,440	7·8	20·8	18·2
Baking, etc.	12,830	8·0	10·0	5·5
Dress and Mantle	11,420	9·7	6·3	4·0
Canal, Docks, etc.	10,110	5·3	27·1	22·0
Chemicals	8,590	8·3	11·6	6·2
Marine Engineering ..	8,410	12·8	22·3	13·2
All contracting	304,120	7·3		

NOTE.—The total insured population increased between July, 1923, and July, 1927, by 372,800, or 3·2 per cent. The general unemployment percentage fell between the same two dates from 11·5 to 9·2.

IV.

If we are right in thinking maldistribution of labour the principal influence in causing the present unemployment, then it is not possible to say definitely either that the general or average level of wages is "too high" or that it is lower than it ought to be. The distribution of labour not only explains divergences between wage-rates in different industries; it also affects the general or average level, since it is an important factor in determining the productivity of industry as a whole. If labour is ill-distributed, as shown by the divergence of wage-rates from "fair wages," then production will be down, and the average level of wages compatible with full employment will be low.

A better distribution of labour, even if it brought down wages in some high-rated occupations, might so increase production that the average of wage-rates would be raised; it would have this effect, since it would bring about something approximating more closely to an equi-marginal application of labour resources to different uses. Of course, such a

redistribution might be effected and still leave a large proportion of the working population unemployed, because the new wage-rates established were all a little too high to permit full employment of the population of a single country in a world economy; but for any given volume of employment a redistribution in accordance with the principle of equi-marginal application of resources would permit a higher average wage-rate than the present, and conversely such a redistribution would permit a larger volume of employment at the present average wage. The test and sign of such a redistribution will be the elimination of the present divergence of wage-rates from skill and responsibility differences; on the other hand, any increase in these divergences, whether by further reduction of such low rates as rule in mining or raising of such high rates as rule in building, must have the effect of exaggerating the maldistribution, in the one case by making possible the retention in an industry of labour in excess of the amount it can employ at a " fair " wage, in the other by opposing an obstacle to the absorption of all the labour that the industry might employ at a " fair " wage. There may be cases in which a temporary reduction in wage-rates may be justified in preference to increasing unemployment, to tide over a purely temporary emergency; but the purely temporary nature of the emergency must be demonstrated before any attention is paid to this plea.

The interdependence of wages and the distribution of labour affects our problem in another way. The present divergence of wage-rates from the scale that skill and responsibility would dictate is as striking a change from pre-war conditions as is the present unemployment. Before the war such a divergence was exceptional and usually temporary, because a continuous redistribution of labour among the industries of the country was constantly going on. The importance of this movement is brought out by a comparison between the movement of average wage-rates making no allowance for numbers receiving the different rates, and the movement of average wage-rates when allowance is made for changes in numbers; Mr. G. H. Wood's index shows an increase of only 15 per cent. between 1880 and 1910 for the former, of 27 per cent. for the latter. Workers must have cleared out of

declining and low-wage industries and diverted their children from them, while they pressed into the higher-paid occupations. This spontaneous redistribution since the war has been insufficient to maintain the connection between wage-rates and degrees of skill, which existed before the war and will have to be restored again before industrial stability can be achieved. There has been a considerable efflux from the depressed industries; but not on a scale sufficient to force up wage-rates in these industries themselves and to force wage-rates down in the industries into which (so far as they have not emigrated) they must have found their way. The depressed industries are still overcrowded, as is shown by the concentration of the unemployed in them; they are still relatively underpaid, even at rates of pay that involve a high degree of unemployment.

There has been a great deal of movement, but less perhaps than there would have been if rights of benefit under the Unemployment Insurance scheme had not been continuously extended. The scheme has operated to check migration more particularly by encouraging organised short time; instead of employment being concentrated on a limited number of full-time workers, the rest being totally unemployed and thereby encouraged to leave the industry, the available work is spread by a system of alternating shifts, in which the workers take turns to work and to receive unemployment benefit; so that the industry is enabled at the expense of the Insurance Fund to retain the services of twice as many workers as it can give full employment to.

In these circumstances the divergence of wage-rates in different industries is necessary to induce labour to move from the depressed to the expanding industries; and this makes it difficult to accept an incidental suggestion of Professor Pigou's. In explaining that in attributing unemployment to the high wage level he does not mean that all wages are "too high," he suggests that unemployment might be relieved by reducing rates in certain sheltered industries; "it might well happen that the sheltered industries would absorb, not only their own unemployed, but—after a transitional adjustment—the unemployed of the unsheltered industries also." Now there may be "high wage" industries in which

a reduction in wages would expand employment, but certainly there are some in which reduction would not necessarily have this effect. There are, first, the industries in which the demand for labour is inelastic. The railway companies have been trying for years both to reduce their staffs and to reduce their wage bills; the size of a railway's staff is largely independent of the volume of traffic; the volume of traffic is determined largely by other factors than railway charges, and railway charges do not depend wholly on railway wages; while a reduction in railway wages might have some effect on employment in other industries, it is unlikely that it would have much on the railways themselves. Similarly it is difficult to see any very direct dependence of employment upon rates of pay in the case of the Dock industry or Local Government. There are, second, the industries in which the demand for labour is elastic, but in which the check to expansion is some factor other than the rate of wages. In the Building industry, for example, the rate of expansion has been limited by the scarcity of bricklayers and plasterers. The demand for houses, and therefore for building labour, would expand if building costs were lower; but it is doubtful whether the supply of houses could expand more rapidly. High wages have been no obstacle to the employment of the scarce craftsmen; the chief reason why more of them have not been employed is that it takes time to train them. There remains the class of industry in which wages are "high" and no other obstacle to expansion exists; in these the lowering of wage-rates to the level of rates in the depressed unsheltered trades would lessen the attractiveness of the expanding industries and check the movement of labour to them. Why should a Tyneside fitter go to the trouble and expense of moving his household to Coventry if his wages in a motor works will be no higher than they were in a shipyard?

V.

To sum up; the connection between wage levels and unemployment is complicated by a number of other factors which differentiate the post-war from the pre-war industrial situation, and render it a dangerous abstraction to isolate

one factor and attribute to it the whole of the present abnormal unemployment. The maldistribution of labour brought about by the war is a more important cause of unemployment, the influence of which has been limited by the lowering of wage-rates in the overcrowded industries and is being reduced by a fairly rapid spontaneous redistribution of labour. And the same factor in the problem, the uneconomical distribution of labour, so affects the productivity of industry that it reduces the average wage that can be paid without causing unemployment. Some of the material cited has a bearing also on the problem of subsidies and their effect, to which in conclusion a reference may be made.

Whatever may be the process by which it is being done—and the theory of employment is perhaps as difficult a branch of economics as the theory of unemployment—there seems no doubt that the population in excess of requirements in the depressed industries is finding employment elsewhere. The unemployment situation is not stationary. A comparison between the two years 1923 and 1927, neither of which was disturbed by coal stoppage or important monetary change, shows a reduction in unemployment from 11·7 per cent. (average of year) to 9·7 per cent., and an increase in the absolute number of employed in the insured industries of 3·2 per cent. This reduction of unemployment has been associated not with a fall, but with a slight rise in real wage-rates; it is due no doubt in part to the influence of new savings and increased efficiency, to which Professor Pigou refers, but much more to the shift of labour indicated above. While the circumstances are in many respects different, the rapid recovery of American industry since 1920 may be referred to as a parallel movement, since it has been associated with a continuous and great rise in real wages.

It is, however, impossible to find out from the figures at our disposal whether the power of absorption shown by industry as a whole, even at the present average level of wage-rates, is inherent in industry, or attributable mainly or entirely to the action of Governments in stimulating the development of selected industries by protective tariffs and subsidies. The chief index of expansion that we have, the growth in the numbers insured in different industries under the Un-

employment Insurance Acts, is consistent with the influence of this factor. To protection may be attributable a part, at any rate, of the increase by 47 6 per cent. between 1923 and 1927, in the numbers employed in Silk and Artificial Silk, by 21·4 per cent. in the motor industry, by 38·1 per cent. in the manufacture of Scientific and Photographic Instruments. The Housing subsidies show their influence not only in a 20·5 per cent. expansion of the Building and Contracting industry, but also indirectly in the even greater expansion of the building material industries, Furniture and Upholstering, Electric Wiring, Heating and Ventilating Engineering, Wall-paper Manufacture, and Paint and Varnish Manufacture. The vast expenditure of public funds upon road improvement, coupled with the development of Housing, similarly helps to explain the expansion of Road Transport and Constructional Engineering. At the same time it is highly improbable that none of this expansion would have taken place without Government help. Messrs. Courtauld's profits probably had an influence in stimulating enterprise in the Artificial Silk industry not less than the protective tariff. Houses were needed, and would have been built in large numbers without any subsidy. The Motor industry expanded as rapidly in the interval during which it was unprotected as before and after. The distributive trades, Electrical Engineering and other smaller industries, have expanded without assistance. The large coal subsidy probably prevented a necessary contraction in the Coal-mining industry from coming so soon or going so far as it is likely to do, but it could not prevent a 10 per cent. contraction in the twelve months after it ended.

For another reason the recorded growth of the protected and subsidised industries is indecisive. Our index records only the primary effect (if it is the effect) of Government action; it gives no indication of the secondary and indirect effects. We should expect that partial protection, by obstructing the imports with which foreigners purchase our exports, would have an unfavourable reaction on export industries. In fact, unemployment and depression are most marked in the chief export industries. Subsidies have to be paid by someone; the cost of the subsidies to expanding

industries may be a partial explanation of the difficulties of the industries that are contracting employment. Certainly the various protectionist expedients and subsidies were not introduced as parts of a considered and co-ordinated policy of post-war reconstruction. If, as Professor Pigou suggests, such a policy is beyond the capacity of any Government the country is likely to get, it would be safer to confine Government intervention to the negative policy of relieving industry of burdens that press with different weight on different industries, and removing obstacles to the spontaneous reorientation of industry and redistribution of labour that is all the time going on.

VI

EXPORT TRADES AND UNEMPLOYMENT*

I.—Expanding and Contracting Industries.

There is a disposition in current political discussion to despair of the great export industries, and, in order to justify despair, to decry them. They are criticised as inefficient and unenterprising, contrasted unfavourably with the " new " industries, and warned not to take themselves so seriously as they have done in the past. The improvement in employment and the expansion of profits in industry as a whole, in spite of continued depression in these older staple industries, is taken as proof that the country can get on very well without them; the " new " industries and an expanding home market will supply their place. Some such theory would seem to explain the depressing optimism of recent references to unemployment by members of the Government; an acute foreign student of England, M. Siegfried, has suggested something similar; and the Liberal Industrial Inquiry, though expressing itself with many qualifications and endeavouring to prescribe for the depressed industries, shows signs of the same influence. To illustrate this trend of opinion it will be sufficient to quote two or three passages from the report of the last of these.†

" These great groups of industries stand out so prominently in our economic life and played so preponderant a part in our development during the last century that they are apt to monopolise attention. It is common, accordingly, to speak of the post-war ' trade depression ' as though British trade and industry as a whole were experiencing the same

* The first three sections of this essay were published in the *Manchester Guardian*, April 12-14, 1928, the fourth in *The Commercial*, July 12, 1928; they are reprinted here by the permission of the editors of these journals.

† *Britain's Industrial Future*, being the Report of the Liberal Industrial Inquiry. Ernest Benn Ltd., 1928.

misfortunes as the basic trades. This, however, is far from being true. There is not to-day, and there has not been for several years, a general trade depression in the sense in which economists are accustomed to use the term. In many directions, on the contrary, there has been remarkable expansion. New industries have sprung up, or have grown from small beginnings, which have provided compensation, in no small degree as regards both employment and the national income, for the decline in the basic trades. Meanwhile there has been a steady expansion in a great variety of miscellaneous occupations, catering mainly for the home market" (pp. 12, 13).

"It is inaccurate, therefore, to speak of Great Britain being generally depressed. Our industrial difficulties are essentially the difficulties of a limited group of exceedingly important industries which are largely dependent upon foreign trade and concentrated to an important degree in particular localities" (p. 24).

"We think that there is in some cases a certain amount of remediable inefficiency within the industries themselves. In certain sections of the coal, textile, and steel industries those upon whom responsibility lies seem to outside observers to have proved themselves unequal to dealing with the new problems which confront them. . . . This is probably in some degree a natural consequence of diminished vitality in industries which were in their prime and in the forefront of progress two or three generations ago" (p. 42).

"It will now be evident to the reader where our argument is leading us. We feel no assurance that a restoration of our old export industries to the same position of relative importance in the economic life of the nation which they held before the war is possible without a reduction of wages or a lengthening of hours or a lowering of the standard of life in some other way. The hope for our export trade generally must lie rather in the development of the newer trades. Moreover, a return to the pre-war ratio between imports and exports is not necessary unless we wish to increase our foreign investment to its pre-war dimensions, a course for which at present the national savings provide no sufficient margin after providing for home needs. Nor is there any reason in the nature of things why the national interest should require indefinitely the exportation of wealth on so great a scale. It seems to us, therefore, that the time is now ripe for a bolder programme of home development which will absorb and employ the national resources of capital and labour in new ways" (pp. 45, 46).

It is apparently necessary to point out in the first place, that trade depression is not confined to the older export industries (throughout I will take coal, iron and steel, general engineering, shipbuilding, cotton, woollen and worsted, and shipping as representing these), but is as general as it was in any depression for thirty years before the war. If the industries named are excluded from the figures of unemployment among insured workpeople, the percentage of unemployment in the rest of industry was still at the end of February only just under 9—a figure that would have shocked us before the war. It is true that some industries are busy and many firms are making profits; but this was equally the case in all pre-war depressions. There has been an improvement on the deeper depression of 1921-22, but that is all. Now this generally diffused depression is mainly attributable to the concentrated depression in the group of industries named above. They constitute such a large part of the country, employing a third of the insured population and providing the sole market for retailers and other neighbourhood traders over large areas of the country, that their misfortunes are diffused throughout industry. The difference between unemployment pay and normal earnings in the case of the 450,000 unemployed workpeople dependent on these industries and the profits their employers would make if they were working at full capacity would go far to wipe out the 8 per cent. of unemployment in the tailoring industry, the 11·2 per cent. in the chocolate and confectionery industry, the 16 per cent. in pottery, and the 15·1 per cent. in building.

What, however, are the expanding industries to which we may look for an alternative to the old staple industries? The answer is presumably to be found in the table of changes in the industrial distribution of the insured population published annually for the last four years by the Ministry of Labour. In the last return, relating to July, 1927, thirty-five industries were given as showing increases since 1923, twenty-seven as showing decreases. The greatest percentage increases, ignoring industries employing less than 50,000, were shown by silk and artificial silk, 47·6 per cent., brick, tile, and cement, 40·5 per cent., electrical engineering, 30·1

per cent., distributive trades, 26·1 per cent., furniture making, 21·7 per cent., motor manufacture, 21·4 per cent., building 20·5 per cent., and road transport, 19·4 per cent.; the greatest absolute increases were shown by distributive trades 327,090, building 173,200, road transport 49,840, motor manufacture 41,030, and brick, tile, and cement 35,680.

It is obvious at once that a very important factor in producing this expansion has been the influence of public subsidies and protection. Subsidies to housing, from which the building material, house equipment, and furnishing industries derived an indirect stimulus, between 1919 and 1925 amounted to £47,000,000, and involved a continuing annual charge of £8,000,000; expenditure on roads increased from £15,000,000 per annum before the war to £55,000,000 today; the motor industry has enjoyed a high degree of protection, with a year's interval, since 1917, and artificial silk since 1925. More detailed study of the list confirms this inference; of the first seventeen industries—they are arranged according to rate of increase—fourteen have had the advantage, directly or indirectly, of protection or subsidy.

It follows that the mere fact that the expanding industries have expanded proves very little. The country can at any time have as much expansion in selected industries as it likes to pay for, directly by subsidy or indirectly by protection. What we require is proof that the expanding industries can be relied on in the future, to provide compensation for the decline in the old staple industries, without Government assistance.

It may be admitted that their expansion is not due solely to subsidy or protection; recent technical advances and the conditions of post-war demand have favoured them, and would have ensured expansion even if post-war Governments had not assisted it at the expense of the rest of the country, of which the depressed industries are a not inconsiderable part. But the comparison between the depressed and the expanding industries is not a fair one; before we could decide that the country's comparative advantages for different industries have changed we should have to try the effect of spending £50,000,000 a year on promoting shipping instead of providing tracks for mechanical road transport, grant

protection to iron and steel instead of to motor manufacture, subsidise textiles or shipbuilding to the extent of eight or ten millions a year, and exclude competitive engineering products as we exclude dyes. We cannot, unfortunately, take the pre-war distribution of our activities as a " normal " state to which we shall return—the world has changed too much for that—but, at any rate, the pre-war distribution was not affected by the disturbing influences of arbitrary subsidies and selective protection. It was the result of equal competition without favours, and it was at least as good a guide to our comparative advantages as the post-war distribution.

This assumes, of course, that the country will not permanently continue the present subsidies, or permanently select certain industries, to the exclusion of other more important industries, for the favour of protection. We must consider, therefore, how long the demand, to which the expansion of these " new " or favoured industries is a response, is likely to last.

To take the more important cases, which between them account for three-quarters of the total expansion in all the expanding industries: building, and the dependent building material and furnishing industries, if they have not reached their maximum, must be nearing it. The great output of houses of recent years cannot last indefinitely; the war-time arrears have been overtaken, and the annual increase of population is less every year. In a few years we may expect a stationary population — a declining one is not an impossibility if the more ambitious emigration schemes are realised—and a consequent decline in what will probably prove to be an inflated building industry. Road transport will doubtless increase, but at a diminishing rate. Quite apart from the growing congestion of the roads, which can be relieved, however, only at a progressively heavier cost, a country does not obviously become richer by transferring its population from trains to omnibuses and its goods from railway waggons to lorries. Motor manufacture is approaching saturation of the home market; doubtless its exports will grow, but it has some way to go before its proportion of the world's export trade, at present about $6\frac{1}{2}$ per cent.,

approaches that of cotton or shipbuilding, both of which do more than half the world's export trade. What reason is there to suppose that our comparative advantages for motor manufacturing are any greater, indeed as great, than our advantages in the export industries, in which we have hitherto engaged and in which we are still the leading, or one of the leading, exporting countries? There remain the distributive trades, which show the largest expansion of all. There is a natural tendency for a larger proportion of the population to be engaged in distribution, as manufacture is mechanised and industrial output per worker employed increases. But we cannot expect the distributive trades to expand if the resources of their customers, among whom the depressed industries are a very important element, do not expand; we cannot expect to solve our unemployment problem by becoming literally a nation of shopkeepers.

The older export industries, on the other hand, may reasonably expect an expanding demand, just because they work for elementary needs and a world market. In spite of the dislocation caused by the war, the recent census of production showed that a fifth of the coal, a third of the iron and steel, a quarter of the general engineering, half the shipbuilding, four-fifths of the cotton, and more than half the woollen and worsted were for export. Before the war there was a steady growth in the demand for their products, in spite of the simultaneous growth of competing manufactures in other countries; in other words, world demand grew as rapidly as world productive capacity. The war and the post-war confusion checked this growth of world demand, while stimulating productive capacity, but the material collected by the International Economic Conference showed that the increase in wealth has been resumed. The world is growing in population and resources, as it usually does between wars; it is therefore not an irrational hope to expect that it will some time require the products even of Oldham mules and Durham coalpits again.

The depression that affects our export industries affects also the corresponding industries of other countries; everywhere depression is checking expansion or causing contraction, which will hasten the restoration of remunerative con-

ditions as demand grows. It is not unlikely that the present talk about "surplus capacity" will be transferred in ten years' time from cotton and coal to building and motor manufacture. Already the unemployment figure in building is higher than in general engineering, and motor manufacturing firms are announcing losses.

II.—Causes of Depression.

We have seen that there are special reasons for the prosperity of the expanding industries, which forbid the hope that they will take the place of the depressed export industries. Our estimate of future possibilities, and therefore policy, will be influenced by the diagnosis we make of the latter's depression as much as by our explanation of the former's prosperity. The critics attribute much of the depression to inefficiency. Few industries are not in need of some reorganisation, few are incapable of some improvement in their efficiency. But the question at the moment is not whether the old industries are efficient or inefficient, but whether they are less efficient than the expanding industries on which we are invited to rely in their place. Were differences in efficiency the explanation of differences in prosperity, the favoured trades might dispense with subsidies and protection and rely on their superior efficiency; while the depressed trades would be in a much worse position than they are.

It does not appear that inefficiency will explain the depression. After all, industries that depend on export to any great extent, without any monopoly advantage, disappear if they are really inefficient; and, depressed as the export industries are, they show no signs of disappearing. The Lancashire cotton industry still does half of the total world's export trade in cotton manufactures, the depressed shipbuilding industry does more than half of the world's total shipbuilding, and the other industries all hold a leading place in the world's markets. Not inefficiency inside the industry, but changed conditions outside, are the explanation of their present plight; for the war, which helped forward by investigation and experiment the chemical, artificial silk,

and motor industries, and ensured prosperity for the building industries by holding up all building for five years, brought little but harm to the older staple industries.

The effect of the war varied from industry to industry; but in every case present difficulties can be traced to the necessity of sacrificing ordinary trade connections and production in the interest of war production. The engineering, iron and steel, and shipbuilding industries expanded their staffs and increased, at high cost, their equipment in response to Government appeals, and thereby incurred liabilities for which the ordinary peace-time demand for their product afforded no justification.

The coal-mining industry submitted to a control that attracted into the industry 200,000 superfluous workers, and, by its price policy, ruined for a decade, if not permanently, some of the industry's most important foreign markets. The textile industries suffered an interruption of relations with their overseas markets so extensive and prolonged, that these markets were forced to turn elsewhere and became accustomed to drawing their supplies from our competitors. The shipping industry suffered a similar diversion, and was forced also to rebuild its fleet when costs were at their highest, and then to face the competition of shipping subsidised by Governments that disregarded losses. All alike suffer fron the restrictions upon trade which the war temper has revived.

In equity, therefore, if the State were to distribute any favours in the way of subsidies and protection, the depressed industries might have preferred the first claims. The loss of employment and reduction of wages, the loss of capital and profits that they have suffered, are a cost of the war that differs from other war costs only in being concentrated on the workpeople and employers in these industries instead of being borne by the general body of taxpayers. With the exception of the coal subsidies and a few trade facilities guarantees, they have, however, received no favours; on the contrary, they have suffered the opposite; they have been handicapped by taxation, that, by an accident of our system of national and local finance, discriminates against them. A system of providing for the relief of different kinds of

distress by insurance contributions and charges on local rates, that was in need of amendment before the war, has been extended to meet the abnormal and unforeseen needs of the post-war situation, and, by this extension, has become a burden which presses with particular weight upon the depressed export industries.

It is necessary to distinguish precisely the ways in which taxation or rating does affect adversely expert industry. In the first place, a distinction must be drawn between the objects of expenditure and the method of financing them. The unemployed cannot be left to starve, and the country probably will not tolerate any serious cutting down of public social services. It is the financing of these services, by a charge upon the working costs of industry, instead of by a tax upon realised income, that constitutes a hardship. Income-tax and super-tax are paid only if income is there to pay tax; insurance contributions and local rates have to be paid by a business whether it is making a profit or a loss. These charges bear no relation to a firm's ability to meet them; they do not vary with output, prices, or profits; they are costs over which the firm has no control.

The burden of rates becomes heavier as output diminishes, since the aggregate amount to be paid does not diminish, and the charge per unit of output increases. Insurance contributions do vary roughly with output, since they vary with the number of workers employed; but it does not follow that the burden is proportioned to the capacity of the industry to bear it. Profits seldom vary directly with output; when a firm is working at full capacity it can usually pay more than in proportion to the number of employees; when it is working at less than full capacity it probably is working at a loss, to which the insurance contributions are a net addition. Because rates and insurance contributions bear no relation to the capacity of industry to pay them, they have not been adjusted to changes in the value of money; on the contrary, they have been allowed to creep up, while other prices, including the prices which export industry receives for its products, have been falling. Between 1925 and 1927 local rates in England and Wales increased from £142,000,000 to £159,500,000. Insurance contributions increased by 10s.

per man per annum, while average prices of British exports fell 13·5 per cent. from the 1924 level.

The influence of this burden is much greater than its mere aggregate amount would lead us to expect. While the proportion which it bears to the costs of any one process of manufacture is small, the cumulative effect in successive processes upon the final cost of an export is more considerable. The Balfour Committee give instances of the combined increase between 1913 and 1923 per ton of finished steel varying from 4s. 5d. to 7s. 2½d. In the second place, the average burden is no indication of the effect of a charge on employment. Mr. Coates put figures before the Colwyn Committee showing the narrow margin of profit in a number of representative trades. For example, in 1922-3 in the cotton industry 16·15 per cent. of the total turnover in the sample taken was done at a loss of less than 5 per cent., while 33·74 per cent. was done at a profit of less than 5 per cent. It is the effect of adding to the fixed charges of industry upon marginal business of this sort that is important; a very small addition to costs will bring down below the margin the 33 per cent. of business that at present just pays, a very small reduction might lift the 16 per cent. on which a loss is being made into the zone of payability.

III.—Some Special Handicaps.

So far we have seen no reason to differentiate between the depressed export industries and the rest of the industry. It is, however, not only that any burden which is unalterable in amount presses more hardly on a depressed industry, working at less than full capacity, than upon a prosperous industry working at full capacity; the export industries are under three other disabilities. They are, first, large employers; a tax on employment, therefore—which in effect is what insurance contributions amount to—will hit them more hardly than it hits the prosperous banks, insurance companies, merchanting, and retail businesses, which employ small staffs in relation to the volume of their business. Dr. Cannan has criticised the unemployment insurance scheme in its present form as a "subsidy to unemployment";

it is certainly a tax on employment. In the second place, export industries have less chance of passing on to the consumer charges of this nature. Their customers have alternative sources of supply in the industries of other countries, and will turn to these alternative sources if British suppliers attempt to pass on to them these costs. They are working for an elastic demand and cannot control supply; their only means of maintaining sales is to keep down costs.

On the other hand, if the export trades can get their costs down, their chances of recovery are good. Any reduction in the price at which they can offer their goods will have a larger effect than a similar reduction would have in the sheltered home market; for it will not only bring the goods within the reach of a lower stratum of demand, but displace in the stratum which is reached by present prices the goods of any foreign competitor who cannot cut his prices to a corresponding extent. Small as the proportion which rates and social charges bear to total costs of production in the export industries, the actual amount is probably not smaller than the margin by which continental steel is underselling English steel, or Polish coal Durham.

In the third place, so far as war-induced unemployment has not been met by the Unemployment Insurance Fund, it has fallen upon the local rates. Since the depressed industries are highly localised, the effect of so placing the burden is again to impose the largest share of it upon the industries least able to bear it. The pressure is worst in the case of coal, since coal areas have usually no other industry to share with them the burden of rates. Pits are rated on output, so that when one pit closes down the burden on the remaining pits is increased.

It may be replied that the depressed industries have derived most benefit from the insurance scheme, which is true. But if, as they may fairly claim, the unemployment in these industries is directly attributable to the war, it is no more reasonable to collect the cost of relieving it by a tax upon the industries that suffer it than it would be to finance the war debt by that method. A distinction must be drawn between this war-caused unemployment and the unemployment that the insurance scheme was devised to

meet. Industry may reasonably be charged with the cost of providing for ordinary unemployment, such as is incidental to the workings of industry in normal times undisturbed by war. But that cost was carefully estimated and provided for by the Unemployment Insurance Act of 1920 in the rates of contribution and benefit then laid down; any unemployment in excess of that so provided for must be attributed to abnormal and exceptional circumstances, for which industry cannot reasonably be expected to take responsibility.

The joint contributions of employer and workman under the 1920 Act amounted to 8d. per man per week; from the end of 1921 to the beginning of 1926 they amounted to 1s. 7d. per man per week. The difference was a special tax, imposed upon the working costs of industry, in order to relieve the general taxpayer of the burden of providing for the abnormal unemployment caused by the war; it amounted to £24,000,000 a year on the insured industries as a whole and to £8,600,000 on the group of export industries that we are considering. And this was levied in addition to the much greater sacrifices in reduced wages, writing down of capital, and forgoing of profit, undergone to mitigate the severity of unemployment.

When all necessary qualifications have been made the burden upon the export industries of insurance contributions and rates is a serious handicap in their endeavour to recover their pre-war trade. It is not the chief cause of their depression—the war, directly or indirectly, was the chief cause; but it is the most important of the causes that it is possible for Government to remedy. It is unfortunate that the remedy cannot be applied without extensive changes in the system of national finance. But the problem does not grow less by delay; the diversion of labour to subsidised and protected industries merely conceals, without curing, the real problem of unemployment; and it is pouring water into a sieve to relieve unemployment and attempt to provide fresh employment by financial devices that add to the costs, and therefore to the distress, of the industries that need relief most.

In equity and logic the export industries can demand

two things: that the relief of unemployment directly attributable to the war be treated like other war expenses and charged on the general revenue of the country; and that in any case the cost of this and other social services that at present are charges upon the working costs of industry be transferred to taxes levied upon realised income. The obstacle is not that such a transfer is impossible on administrative grounds, but simply that it would involve increased direct taxation.

The disproportionate weight of insurance contributions and local rates upon the export industries is an influence preventing the recovery of these, just as much as subsidies and selective protection are an influence stimulating the expansion of other industries; both must be allowed for in any estimate of recent achievements or future prospects. A correct estimate in this matter is not merely of academic interest. If this country takes the superficial improvement in employment figures as proof that the problem of post-war unemployment is being solved, it will naturally conclude that a recovery of the older export industries is not essential to a general economic recovery, and it will look for further relief to a further exploitation of piecemeal protection and subsidies. The immediate results of such a policy in the favoured industries are usually obvious, and encourage Ministers in the illusion that they have done something.

On the other hand, if we cannot look to the expanding industries for more than a temporary relief and must depend ultimately for any improvement in the average standard of life upon some improvement, if not a restoration to their pre-war volume, in the export industries, we shall adopt a different attitude towards foreign trade. We shall take a much more lively and active interest in the movement for facilitating international trade of which the International Economic Conference at Geneva was at once a sign and an instrument. We shall be more careful of giving other Governments, which are being criticised for an obstructive policy, the opportunity of justifying themselves by our example. We shall face the fact that our recovery of prosperity depends on the world's recovery. On general grounds it is unlikely that British industry, organised for a

century for a world market, can change its direction without heavy losses; in which case a selfish nationalist policy will defeat its own end.

IV.—The Special Case of the Cotton Industry.

The publication of the Balfour Committee's interim report on the textile industries, following on the private investigations made by Professor Daniels, Mr. Jewkes, and others, makes it possible for the first time to see the post-war depression in the cotton industry in perspective. With a 30 per cent. drop in exports and a surplus labour problem of the order of magnitude of 80,000 to 100,000 out of 600,000 operatives, some fears for the future are reasonable. At the same time depression is not confined to the cotton industry, nor is it universal in it. I propose, therefore, to examine the incidence and causes of the depression by way of forming a judgment of the future.

Depression is found in other industries, but mainly in industries that were either expanded by the war, like iron and steel, or since the war have suffered from the competition of substitutes, like coal. The cotton industry was not expanded by the war and has been relieved as much as injured by the development of a substitute in artificial silk. There must be, therefore, special circumstances affecting the cotton industry. Depression, however, is not universal. As is well known, the industry is highly specialised. It will be sufficient for the argument to distinguish four main sections. The finishing trades have not proved unprofitable. Since they work mainly on commission, they did not lose capital when values of stocks fell in 1920-21; they built up big reserves in the good years; and they are strongly combined. The merchants lost a great deal of capital when the values of their stocks fell, and bankruptcies have been more numerous in this section than in any other; but they are not burdened with mills on which there are heavy loan charges, and which are working short time, and the higher prices yield them probably as large profits on a restricted volume of trade as lower prices did when the industry was working full time. The manufacturing section has felt the full

force of the depression, but it has been able to do something to meet it, since the possibility of diversifying production is greater in the case of weaving than of spinning, and the use of artificial silk has probably brought some relief. It is the spinning industry that has been, and is still, most depressed.

Even in the spinning and weaving sections, however, the depression is by no means universal. It is centred on Oldham rather than Bolton, on Blackburn rather than Nelson. In other words, it is concentrated in the American section of the industry, the Egyptian section having enjoyed as much prosperity as most industries. Even in the American section it is further concentrated; counts over 60 (or even 50) and under 20 (or even 24) are, apparently, not doing badly. It is within these limits that the depression is concentrated and on the mills that weave these yarns. It is the bulk trade in the cheaper cloths that has suffered; since the American spinners account for about two-thirds of the spindles in the industry, and somewhere about two-thirds of these are in the depressed range, we may say that the depression is concentrated on about half of the Lancashire cotton industry, and that in this half the extent of the depression is represented by a loss of output not of 20 or 30 per cent. but of 50 per cent. or over.

The location of the depression points to the proximate cause—namely, loss of markets. Before the war the Far East took over 60 per cent. of the yardage of our exports. Since the war it has been under 50 per cent. The decline in the yardage of our exports as a whole has been 35 per cent.; in the Far East it has been 55 per cent. To put it differently, our exports have fallen from 7,000,000,000 yards to 4,000,000,000; seven-eighths of the loss has been in the Far East. Allowing for quality, we have about held our own outside Asia; in the Far East and the Near East we have suffered nearly the whole of our net losses.

We have lost markets to a variety of competitors: to Indian manufacturers who have the protection of a 14 per cent. duty, and even so have displaced our goods not by cheaper goods of the same quality but by lower-priced substitutes; to Japan, a much more serious competitor, not only in India but in China and the Dutch East Indies,

more serious because Japan, like ourselves, is an exporting country; Italian competition has been serious in the Near East and South America. In Europe the countries with depreciating currencies have made the running. In general, it would appear that we have lost ground on the cheaper goods in the poorer markets. The proportion of finer goods in our exports has increased, and we have held our own reasonably well where quality rather than price was the consumer's prime consideration. Unfortunately, the poorer markets are the big markets, and in these we are beaten in price.

In considering the decline in our competitive power it will be convenient to divide the post-war period into two parts, before 1925 and since. Before 1925 it is reasonable to suppose that dislocation caused by the war to markets and monetary systems would in any case have caused difficulty; and these difficulties were enhanced for the cotton industry by a reduction in world consumption of cotton manufactures and a shortage and high price for several years of American cotton. Improvement, therefore, was almost impossible, since consumption could be stimulated only by a drastic cut in prices, and this was rendered impossible by the high price of raw material. The conditions of this period, however, contributed to the post-1925 depression by enabling the users of Indian cotton, particularly the Japanese, to invade still further our markets. Since 1924, however, world consumption has reached its pre-war level and has continued to grow. Since the middle of 1925 also American cotton prices have been falling, so that the explanations of the depression that were current before 1925 will no longer serve. Yet we have lost ground still further, even if allowance be made for the abnormal condition of the year of the coal dispute.

The distinction between the earlier and later parts of the post-war period that I have drawn is important from the point of view of policy. Almost continually since prices broke in 1920 the industry has sought to meet the situation by organised short time. It is commonly thought that it was the pre-war practice of the industry to meet depression by organised short time. I believe this view is incorrect.

Before the war the industry organised short time to meet a restriction, natural or artificial, in raw material supplies, but not to meet a falling off of demand if cotton was plentiful and cheap. On pre-war principles, therefore, short time would have been justified from 1921 to the middle of 1925, but not in the season 1920-21 or the last three years. The use of short time as an indiscriminating remedy to meet depression, after cotton prices had fallen, resolves itself, therefore, into a desperate gamble; the object was to raise prices, which are set by *world* conditions of supply and demand; the instrument was the restriction of *local* supplies. The policy was not without effect, spinners' margins being increased in 1924-25 when cotton prices fell; but the policy was bound to fail in the long run, since it was the relative level of our export prices that was restricting our sales.

It is doubtful whether the short-time policy ever commanded the adherence of a large enough proportion of the trade to make it effective. The attempt of the Yarn Association to fix prices directly, and to support them by restriction of output in particular classes and grades of product, was defeated by the same influence. It does not, however, appear that any policy of restriction of output could have done much to solve the industry's problem. At the most it would have transmitted the pressure from spinning to other sections; the ultimate price of cloth being limited by the price it is possible to get in the export markets. The other sections, with the exception of the manufacturers, are in a much stronger bargaining position than spinning, and could resist such pressure. It was not a practicable proposition, with the law of restraint of trade what it is, to combine the 800 or 900 concerns in the spinning section, or even the 300 concerns operated by public companies. Finally, if the policy had been effective, it could have only made things worse for the industry as a whole, since uniform reduction or restriction of output throughout the spinning section must have raised costs, higher prices must have checked sales, and the further restriction so necessitated have raised costs still further. The policy was abandoned last year.

I have said that the depression is concentrated on the

American spinning section; it will help to explain the failure to secure combined action in this section if I refer to the financial difficulties which peculiarly affect it. After the war there was a sudden expansion of demand, which it was impossible to meet by an immediate increase in spinning mills and spindles. The consequence was an intense demand for the existing spindles, which led to the purchase and refloatation, or the recapitalisation, of all the spindles which the company promoters of the district could get control of. About 46 per cent. of the spindles of the industry and 14 per cent. of looms in this way were recapitalised. Since the spindles engaged on Egyptian cotton were either controlled by the Fine Spinners' Association or otherwise inaccessible, most of these refloated spindles were in the American section. Now this recapitalisation need have had no effect upon business, if it had taken the form of an increase in ordinary paid-up shares; but the Oldham industry has a peculiar financial system of its own, which made this increase in capitalisation important. The usual practice is to borrow, in the form of loans at call, most of the capital needed for a mill on the security of uncalled ordinary share capital. In the circumstances of the boom an additional element of indebtedness was incurred, since promoters, in many cases, borrowed from the banks to pay for mills, and were not able to secure the usual loans from small investors, or to call up sufficient ordinary capital, to pay off their bank overdrafts before the slump came. An inquiry covering the greater part of the recapitalised industry showed that mills were taken over on an average at a price six times the previous paid-up capital, and half the money needed to pay this price was raised on loan. Thus, on an average, the prior charges on these mills would amount to 5 per cent. free of tax (the usual rate on loans), or bank interest rate, on three times the pre-turnover capital. There does not seem to be any doubt that, taking the industry as a whole, and including interest paid to loan-holders and banks, a fair return on the total capital of the industry has been paid throughout the depression; while it may have been paid, it is extremely unlikely that it has been earned. The industry, therefore, has been working with heavily increased overheads on a

restricted output, and the obligation that the weaker firms have been under to meet interest charges has compelled them to sell at any price they could get. There have been, in the circumstances, few bankruptcies, the chief creditors preferring to agree to moratoria; with the result that the inevitable liquidation of the post-war over-capitalisation has still to be faced.

To summarise, if this analysis of the depression is sound, the industry is faced by two problems—a major and a minor problem. The major problem is the problem presented by the loss of markets for the bulk products of the industry; the minor problem is that presented by the concentration of the effects of this major loss upon the American spinning section, which is incapacitated by its financial difficulties from taking any effective action. It will be seen that the minor problem has eased the major problem, since the weak selling by spinners has assisted manufacturers and merchants to keep down the price of cloth. But, in the long run, the whole industry is concerned in the difficulties of the spinning section, since the whole industry is equipped to handle a volume of production which requires the output of the spinners, and if these are brought to reduce their output by the expensive process of the deterioration of equipment and management under the strain of continual loss, the other sections will find that the difficulties of the industry as a whole are transferred to them in an exaggerated degree. It will be clear to what conclusion this argument is leading. The future of the Lancashire cotton industry in respect of the cheap cloths for poor markets, which formed the larger part of its pre-war output, is not promising, though the competitive position of Lancashire in finer goods has not been seriously shaken. A word or two on each of the two problems distinguished may be offered in conclusion, taking the minor problem first.

The difficulties of the American spinners cannot be solved by raising prices, since the ultimate consumer will not pay a price for cloth that will permit higher prices for yarn. Salvation can come, therefore, only by bringing costs below the level of the present selling prices. This would seem to involve at least two big changes. First, the burden of debt,

and with it the pressure to meet indirect charges, must be relieved by drastic writing down, or writing off, of debt, or the substitution of deferred for prior obligations, or by a combination of all these methods. In the second place, some economies might be attained by a grouping of mills in larger financial units. Anything of the nature of a single monopolistic combine is not only impracticable, but would be far beyond the capacity of any management which the industry could supply; but without aiming at this, a group of mills could secure economy by specialising plants (there has been a loss of economy in production by the attempt of mills to widen their range of counts when their staple products were unremunerative), by reducing management and agency charges, by closing the older and less efficient mills, and by giving the best technical managers the best mills to manage; and such a combine might be able to raise some new capital for the introduction of certain technical improvements which are available. Finally, if these economies had all been effected the industry might approach the operatives with some show of reason for concessions on wages or working hours. It is on these lines that the Yarn Association is now endeavouring to reorganise the industry.

The difficulties are obvious. The consent has to be secured of directors who will be economised, of creditors who think it unnecessary to write down their claims or accept deferred obligations in exchange for unconditional claims. Moreover, the writing down of debts would do no good unless it were accompanied by some such general reorganisation as the Yarn Association is proposing. It would seem, therefore, that the scheme has little hope of success unless the chief creditors—the banks—are prepared to support it and to make its acceptance by their clients a condition of any writing down or deferring of their claims. Since the banks have no organisation for the business of reorganising an industry, there would seem to be room for the intervention of a respectable issuing house as intermediary between the banks and the industry to tidy up the mess which the inexperienced and not too scrupulous company promoters left behind them.

Any reorganisation of the spinning section would leave

the industry still faced with the major problem, presented by the simple fact that our prices are too high. Now no one section of the industry can reduce its charges sufficiently, by itself, to affect demand appreciably. The head of a large composite concern put it that, whereas before the war if his stuff was accumulating he had to drop his price only by an eighth of a penny a yard to clear his warehouse immediately, today he could drop his price by a penny a yard without having the slightest effect. It follows that a reduction in costs at every stage and by every contributor will be called for if any recovery of markets is to be made. The same manufacturer showed his costings for yarn, which revealed an increase of 140 per cent. over 1913, though the mill was working full time and there were no loan charges. Some costs, which have increased disproportionately, such as rates and social services, are outside the industry's control. Finishing, merchanting, freight charges, as well as labour costs, have all increased, though we are still without any authoritative information as to the relative height of the increase in the different sections. Experiments that are being conducted at the moment show that by combined action between firms in different stages, on a basis of full-time working, in the production of a single standard product, considerable economies can be made; but the problem is one not merely of getting down to the level of our competitors, but of undercutting them. On the other hand, our competitors have lost some of the advantage they had; Indian raw cotton is no longer relatively cheap, countries with depreciating currencies have been forced to stabilise, and labour costs in other countries are likely to go up as labour organises.

Before the war the world's demands for cotton manufactures grew steadily and absorbed not only the increased output of other countries but also a steady increase in the output of Lancashire. Even in the bulk trade in the cheaper cloths, therefore, it is reasonable to hope that some recovery should be possible, that Lancashire should get a share of the addition to the world's demand even if it does not recover the markets it has lost. Moreover, the world's demand tends not only to increase in amount but to rise in quality,

which again should tell in favour of Lancashire. In the finer branches of the trade the skill, good-will, and fine finishes of Lancashire products should ensure the maintenance of the present volume of trade. Before the war Lancashire supplied about 73 per cent. of the total exports of manufactured cotton goods of the whole world. The war, by interrupting the connection between Lancashire and its markets, forced those markets either to develop local supplies, or to turn elsewhere for supplies, and it is not ten years since war conditions ended. That Lancashire should still be supplying half the world's exports in cotton goods offers some ground for hope.

VII

THE WHITLEY REPORTS AND THE MACHINERY OF CONCILIATION

I.—Antecedents of the Reports.

In previous lectures* I have endeavoured to analyse the elements in the problem of industrial relations with which the post-war world has been faced. The handling of that problem, in particular the failure to find a settlement without the deplorable waste of constant stoppage, is conditioned by the machinery with which industry handles it. The essential continuity of the pre-war with the post-war period, which we traced in the elements of the problem, is no less noticeable in studying the machinery. Briefly, the organisation of trade unions and employers' associations, conciliation agreements and joint boards, which covered a minority of well-organised trades before the war, has now been extended to cover the greater part of wage-earning employment. No change in kind, no innovation in principle is to be discerned, but a wide extension and elaboration, in a single decade, of practices and methods, devised by the empirical wisdom of workpeople and imposed on a few industries by continuous pressure for a century.

The underlying change, which made possible and explains the developments that we have to examine, is the spread of trade unionism in the present century. This is illustrated in the following table:

Membership of Trade Unions, Great Britain and Northern Ireland.

	Total.	*Women.*
1900†	2,022,000	154,000
1910	2,565,000	278,000
1914	4,145,000	437,000
1918	6,533,000	1,209,000
1920‡	8,334,000	1,340,000
1926	5,208,000	807,000

* This essay was summarised in a public lecture delivered in the University of Manchester on November 29, 1927.

† First exceeded two million. ‡ Peak year.

This extension began before the war and is easily explained. The rise in the price level reduced real wages, while increasing profits. The contrast, frequently drawn, between the movement of profits and other incomes assessed to Income Tax under Schedule D was a bad argument, since it compared an aggregate sum, which was influenced by the growth in the numbers of the class receiving it, with an average of rates, which was not influenced by the growth, and movement out of the lower-paid occupations, of the wage-earning class; but it was a good explanation of the growing discontent of the wage-earning class. Add to these economic grounds a growing sense of an incompatibility between political democracy and economic inequality, and we have sufficient explanation of the pre-war extension of trade unionism. Wage-earners felt that they were entitled to a larger share of the fruits of industry than they were receiving, and that by combined action they could exact a larger share.

During the war the rise in the cost of living was steeper and more rapid and the lag of wages at first, outside the ranks of the skilled metal workers affected by the first munitions contracts, more marked. There was equal necessity of pressure to secure attention from employers and Government, who were preoccupied with the problem of production, and a ready response to such pressure. As war-production expanded, all classes of wage-earners came to realise their indispensability; the extension of collective bargaining and industrial arbitration called for some organisation to formulate and argue claims; and trade-union membership showed prompt and large returns in the form of war advances.

Trade-union membership has declined from the high figures reached during and just after the war; but the war-time expansion of the unions has had lasting effects. It has accustomed large classes of workers to trade-union action, who before the war were unused to it; this is particularly marked in the case of women workers, who, before the war, outside the cotton industry, were difficult to organise in unions. Thus it turned these workers into actual or potential unionists, who might be prevented by poverty in a depres-

sion from maintaining their membership of a union, but would respond to the appeal of a strike and rejoin as soon as they could afford. In the same way it accustomed employers to negotiation with the unions. It broke down, or weakened, the prejudice against recognition, which dominated many industries; before the war the directors of the railway companies still refused to recognise the unions as such, although they were no longer able to refuse in practice to negotiate with them. It extended trade-union recognition in industries, such as engineering, in which recognition was the general custom, to outlying districts in which employers had refused hitherto to come into line; officials of large employers' associations, called in to assist the Minister of Munitions, put it to such dissenting employers that the Government's labour policy was based upon full trade-union recognition, and that employers must comply with its spirit. Finally, the war lasted long enough, and the circumstances of the war and post-war boom were such that the practical advantages of organised collective bargaining became a matter of general experience. The needs of the Government called for continual and extensive change in the methods of production; such changes could neither be effected promptly nor operated efficiently without the willing consent of the operatives, who were for the time being in the stronger bargaining position; organised collective bargaining and the continuous mediatory work of the union local officials were the best available means of securing this consent.

The war stimulated also a new element, distinctive rather than important, in the discussion of industrial relations, which had appeared in the three or four disturbed years immediately preceding the war; or rather a compound of several elements. There was, first, a feeling of dissatisfaction with the results of the State Socialist programme, with which organised labour was identified, so far as that was already realised in public employment. Wage-earners, working for the Central Government or local authorities, found that they were wage-earners still, who experienced more rather than less difficulty in securing attention to their grievances. One of the most bitterly fought and significant industrial disputes of the pre-war decade was the London

Dock strike, a strike against a public authority, of 1911. The annual conferences of the Labour Party and of the Independent Labour Party in the year before the war bore evidence of this dissatisfaction, in the criticisms to which the official leaders were subjected by a left wing that was critical of State Socialism and dissatisfied with the constitutional Parliamentary methods of the Party. The dissatisfaction lent support to a claim, voiced rather by middle-class sympathisers and by unrepresentative, because book-educated, trade unionists than by the regular leaders of the trade-union movement, to participation in the " control " of industry, as distinct from mere improvement of the conditions of wage-earning employment.

This reaction against the all-sufficing efficacy of State Socialism found an echo in a parallel movement of opinion among employers. For half a century the network of public regulation of industrial conditions had been extending, and the decade before the war saw an accelerated development in new directions. Employers found themselves brought up against new regulations every year, they had the evidence of new State activities thrust before them in the form of new Departments and new Offices, and they renewed their complaints of what they called the growing bureaucracy of Government. Superficially their talk about the State was similar to that of the left wing of the Labour Movement; fundamentally it was something quite distinct. The syndicalist element in the unions objected to State Socialism solely because it did not effect a big enough change; employers criticised the tendency of public policy, because it involved any change at all. The Government was compelling them to do things they had not done of their own volition, things that they did not want to do—to pay a minimum wage to unorganised workers, to insure their employers against accident and unemployment, to limit shop hours and hours in mines. Employers and employed alike could, however, unite in deploring the clumsiness and lack of elasticity in public administration and in declaiming against " the intolerable audacity of elected persons."

One further influence was making for a change in industrial relations. Because the relations of Government

and industry were becoming closer, because Government was imposing every year a more detailed network of public regulation upon industry, the Ministers and permanent officials, through whom Government acted, were being forced more and more to consult representatives of industry. In drafting special regulations for dangerous trades under the Factory Acts, for example, it was necessary to consult both employers and workpeople, if the regulations were to be both effective and practical; the growing habit of intervention in trade disputes involved similar consultation; the growing sense of public responsibility for industrial education, for unemployment, for the rational development of urban areas, involved frequent consultation. And in such consultation the representatives of the workpeople were brought in as well as the employers.

These distinct but superficially related tendencies all merged in a new demand for something that was called "industrial self-government" or "industrial devolution." In one sense of the term some such development was due. As the network of regulation becomes more complex, a larger part of the general social rules, under which industry is carried on, must be devised for industry by the people engaged in industry themselves. Some of them involve technical considerations which no one outside industry is competent to judge, others (such as the fixing of wage-rates) turn on considerations of expediency, which Parliament and the public departments are ill-adapted to assess. But something much wider than self-government in this sense was sought, and the resistance to direct Government action had motives very different from the mere desire to supplement Acts of Parliament and Statutory Orders by collective agreements on points that these did not reach. The cotton operative who employed half-time labour and feared the raising of the school-leaving age, the employer who feared the imposition on his trade of a Trade Board to fix minimum rates of wages, the young trade-union official who was ambitious to show the employers how to run their industry, the extreme individualist temperament, which provides so much of the driving force of Socialist parties, and the theorist, who thought that industry should conform to the

categories of the fashionable political theory, were all talking about industrial self-government, but did not all mean the same thing.

The effect of the war on this movement of opinion will readily be perceived. The new indispensability, which even unskilled labour acquired, gave labour a new sense of power and new ambitions. At the same time the immense extension of Government interference in industry, harsh because it was improvised and imposed under pressure of urgent requirements, excited widespread complaints. Wage-earners found themselves subjected to novel restrictions upon their freedom of movement by the Leaving Certificate provision of the Munitions Acts, and to a novel and sometimes oppressive discipline enforced by Munitions Tribunals set up under the same Acts. Employers found themselves under the necessity of submitting to price-fixing, cost inspection, rationing of materials, and outside direction of their production. Inevitably the practice of consulting the representatives of industry in framing Government policies spread extensively, since actual experience of industry was indispensable. The alleged harshness of the Ministry of Munitions' administration was due almost entirely to the necessity it was under, of enforcing compliance with its requirements without delay; yet every important step was taken only after consultation with representative employers and union officials as prolonged as the conditions of its task permitted. In other departments of Government work, where the urgency of the need was not so pressing, it was found that the easiest—though not necessarily the most efficient or economical—method of securing what the Government wanted was to impose the responsibility for providing it upon representative committees of the trade or industry concerned. On these the trade unions as well as the employers were represented, because it was essential to carry labour with the change of method or policy, and the union officials were the only handle by which the Government could get a grip upon labour. Thus the war created the conditions, against which there had been unjustified complaints before the war. Government was bureaucratic as it was not before the war, because there was not time to make officials respons-

ible for their actions, and bureaucracy is merely government by officials who are not responsible to the representatives of the governed; and the most popular device for limiting the extent and the pressure of this bureaucratic element in government was the organisation of committees in industry, jointly representative of employers and employed. Just as in pre-war days, the grounds of resentment at direct Government intervention in industry, and the objects that it was hoped to attain by excluding it, were different in the case of the employers and the employed; but these differences were not perceived clearly enough to prevent their uniting in their complaints and in talk about industrial self-government. In this atmosphere the Whitley Committee sat and made its report.

II.—The Whitley Committee.

The Whitley Committee was a sub-committee of the Reconstruction Committee set up by Mr. Asquith in 1916. Its membership was made up of three elements—officials of leading employers' associations, officials of large trade unions, and economists and social workers. The chairman, although the head of a manufacturing business, was chosen for his known impartiality and capacity to control controversial discussions; the secretaries, who, in an enquiry of the kind the committee undertook, are usually the most influential members of the company, were the secretary of the Committee on Production, who embodied the experience of the Board of Trade in dealing with industrial disputes, and an economist with intimate labour associations.

The terms of reference were equally capable of a wide or a narrow interpretation. The Committee was charged—

(1) "To make and consider suggestions for securing a permanent improvement in the relations between employers and workmen.

(2) "To recommend means for securing that industrial conditions affecting the relations between employers and workmen shall be systematically reviewed by those concerned, with a view to improving conditions in the future."

They were at liberty, therefore, either to put forward a far-reaching programme of industrial reconstruction, or to

confine themselves to suggestions for systematising and amending the machinery of industrial conciliation. It would appear from the language of their reports that the members differed in this matter, but a judicious vagueness of statement at crucial points made it possible for all to sign the reports. To anticipate, it may be said that the compromise reached was to use the phraseology of far-reaching reform, but to confine actual proposals to conservative modifications of the existing practice of industrial negotiation.

The Committee presented five reports. The first dealt with well-organised industries and recommended the establishment in them of Joint Industrial Councils. The second dealt with industries in which the trade union and employers' organisation were not complete enough to provide a basis for Joint Industrial Councils, and recommended either the establishment of Trade Boards under the Trade Boards (Minimum Wage) Act, amended to permit the new boards to discuss other matters besides wages, or a modified form of Industrial Council on which the Government should be represented. The third report recommended the establishment of Works Committees, jointly representative of management and employees. The fourth dealt with conciliation and arbitration, and, rejecting the proposal of compulsory arbitration, recommended a permanent arbitration authority, on the model of the war-time Committee on Production, to which voluntary submission of disputes might be made. The final report merely summed up the preceding four, but carried also a note by five members that, while they heartily supported the recommendations made, and recognised that the more amicable relations thus established between capital and labour would afford an atmosphere generally favourable to industrial peace and progress, they held that " a complete identity of interests between capital and labour cannot be thus effected, and that such machinery cannot be expected to furnish a settlement for the more serious conflicts of interest involved in the working of an economic system primarily governed and directed by motives of private profit."

These reports were not based upon any special enquiries or extensive hearing of evidence, such as pre-war enquiries by Royal Commissions and Departmental Committees

involved. They represented simply the resultant of a series of discussions by a group of persons of special experience or special interest in the problems studied. The longest of them, the first dealing with Joint Industrial Councils, occupied less than four foolscap pages of large print. And this was the only one of any practical importance. The second was not acted upon, except to supply an additional argument for passing a Bill amending the Trade Boards Act of 1909, that was in draft before the Whitley Committee was appointed. The third was inoperative, because the development of Works Committees, so far as it went, was not on the lines there recommended of joint committees, but of unilateral committees representative only of the employees. The fourth report provided a formal basis for the Industrial Courts Act of 1919, by which the industrial court was established; but, since it merely summed up the experience and view of the Ministry of Labour, which had taken over the Industrial Commissioner's department from the Board of Trade in 1917, and later absorbed the Labour Department of the Ministry of Munitions, the basis would have been there, if the Whitley Committee had never considered the matter. The reputation and the influence of the Committee alike depend on its first report, the report always called the Whitley Report, because most people were not aware that the Whitley Committee had produced any other.

III.—The Report on Joint Industrial Councils.

It is difficult, on a careful reading of this Report to-day, to understand the interest it excited and the fame it rapidly acquired. It is true that the interest was among amateurs of industrial problems rather than among trade unionists and employers; but the fame was not so restricted and spread quickly to the United States of America, whence a steady stream of official and unofficial enquirers proceeded. The explanation is to be found in the pre-existing currents of opinion of which the Report seemed to be a fulfilment. In their final report the Committee claimed that their recommendations had "the effect of conferring upon the Joint Industrial Councils, and through them upon the several

industries, a large measure of self-government," and their report was popularly taken to be a concession of " industrial self-government " to the workers. Actually it conceded nothing, because it placed no obligation upon anybody to do anything. It left trade unions and employers to form Joint Industrial Councils or not, as they thought best; and the most important trade unions and employers' associations, whose officials had signed the Report, ignored its recommendations. If, however, they did form Industrial Councils, their respective rights and powers after joining the Councils were exactly the same as before. The Report recommended no legislation, and therefore left the wage-earners as dependent as before upon their own exertions and the strength of their own organisations to enforce their claims. The Report declared that it was essential to improved industrial relations that " the workpeople should have a greater opportunity of participating in the discussion about and adjustment of those parts of industry by which they are most affected," but proposed nothing that would compel a recalcitrant employer to concede this opportunity; Joint Industrial Councils were declared " necessary " as " a means of attaining improved conditions of employment and a higher standard of comfort generally," but the Government was recommended merely to " propose " their formation to the various associations of employers and employed, and " to offer to be represented in an advisory capacity at the preliminary meetings of a Council, if the parties should so desire." The Government was to " put the proposals . . . before the employers' and workpeoples' associations and request them to adopt such measures as are needful." In a word, employers and employed were to be left to settle their own relations, in the future as in the past, and the Government was warned, politely but clearly, to keep out.

Now this is the traditional attitude both of employers and of trade unions to the problem of industrial relations, and the real significance of the Report is its adhesion to this traditional attitude. The public attention was caught by mere pious expressions of opinion and non-committal suggestions of function with which the core of practical proposals was overlaid. Such phrases as " active and continuous co-

operation," " regular consideration of matters affecting the progress and well-being of the trade," " a permanent improvement . . . founded upon something other than a cash basis," suggested an innovation in industrial policy, which the effective proposals of the Report were not sufficient to bring about. The suggested functions of the Councils were either the object of other provision, made specifically by the State, as in the case of technical education and industrial research, or the normal work of conciliation organisations, such as " the establishment of regular methods of negotiation," " methods of fixing and adjusting earnings, piecework prices, etc.," " conditions of employment," " security "; or so vague—for example, " the better utilisation of the practical knowledge and experience of the workpeople," " examination of industrial experiments, with special reference to co-operation in carrying new ideas into effect "—that the most reactionary employer could approve them as subjects for discussion without committing himself to any very serious change in his ordinary practice. This misapprehension of the Report was unfortunate, since it tended both to raise hopes that were certain to be disappointed and to divert attention from the need and possibilities of improving the machinery of industrial conciliation, to which the practical proposals pointed. It was a conservative, not an innovatory document; it embodied the considered opinions of a representative group of experienced negotiators. Stripped of the verbiage, by which a fundamental disagreement on ultimate social ideals had been concealed, and reduced to the handful of practical proposals involved, its importance consisted in three things: it asserted the principle of trade-union recognition, it embodied the outlines, though in too rigid a form, of any effective conciliation scheme, and it made a case for widening the scope of conciliation organisation.

IV.—Significance of the Report.

The Report asserted the principle of trade-union recognition. It stated the " considered opinion " of the Committee to be that " an essential condition of securing a permanent improvement in the relations between employers and employed

is that there should be adequate organisation on the part of both employers and workpeople." The Industrial Councils were to be "composed only of representatives of Trade Unions and Employers' Associations," not of members elected directly by the workpeople and employers in an industry. Accepted with these elements and adopted by the Cabinet, who instructed the Ministry of Labour to take steps to secure that its recommendations were carried out, it constituted a public and official recognition of trade unionism and collective bargaining as the basis of industrial relations, that is perhaps surprising, when it is recollected that large groups of employers were still refusing to recognise the unions when war broke out. Such official recognition was the conclusion to which the practice of industry and the investigations of successive commissions and committees pointed. The Royal Commission on Labour, for example, had cautiously embodied its "general view" in the statement:

"With regard to those industries which are carried on on a larger scale and require the co-operation of great bodies of more or less skilled and trained workmen, the evidence received by the Commission points to the conclusion that, on the whole, and notwithstanding occasional conflicts on a very large scale, the increased strength of organisations may tend towards the maintenance of harmonious relations between employers and employed in a manner suitable to the modern conditions of industry. The belief was expressed both by employers and workmen that where a skilled trade is well organised, good relations tend to prevail, and countless minor quarrels are obviated or nipped in the bud."

The Industrial Council, an advisory body appointed by the Government before the war, in its report on Industrial Agreements in 1913, had stressed the importance of strong organisation on both sides in the preservation of industrial peace; "we find that where agreements are the outcome of properly organised machinery for dealing with disputes they are, with very few exceptions, loyally observed by both sides." The approval of the Whitley Report by the Government might, perhaps, have been regarded as settling the question of principle.

Government approval, however, does not determine the policy of employers, and the question, which the Whitley

Committee sought to settle, came up again in the discussions of the Provisional Committee of the National Industrial Conference in 1919, which reported that: "The basis of negotiation between employers and workpeople should, as is presently the case in the chief industries of the country, be the full and frank acceptance of the employers' organisations on the one hand and trade unions on the other as the recognised organisation to speak and act on behalf of their members." It came up again in the conferences initiated by Sir Alfred Mond in the present year, the joint report of which, eleven years after the Government's approval of the Whitley Report, found it necessary to put on record that "it is definitely in the interests of all concerned in industry that full recognition should be given to affiliated Unions or other *bona fide* Trade Unions as already defined, as the appropriate and established machinery for the discussion and negotiation of all questions of working conditions, including wages and hours, and other matters of common interest in the trade or industry concerned. We further consider that negotiations between employers and workmen are facilitated by workmen being members of an affiliated Union or other *bona fide* Trade Union as already defined, and also by employers likewise being organised."

Assuming trade-union recognition, it is still possible to differ over the appropriate machinery for giving effect to it. The Whitley Report summed up English experience, and gave a kind of official statement to the general conditions that any sound system of conciliation machinery must satisfy. In the first place, it must be national in its scope. District negotiations between local unions and individuals or local associations of employers will no longer serve the needs of industry; the war period had demonstrated that a settlement in one district was certain to have reactions in others. In the second place, it must be "standing" or permanent. Intermittent, *ad hoc* negotiations are defective for two reasons at least: they make it difficult to resume negotiations after a breakdown, when the initiative by either side might be taken for a sign of weakness; and they miss the influence which regular association on a standing council, which meets regularly, must exert upon the temper and

personal relations of the negotiators on the two sides. In the third place, the machinery, while national in extent, must be decentralised in action. The prompt discussion of grievances and the settlement of differences as they arise is the first condition of good relations—as the war again had demonstrated; this involves some district and workshop organisation that can act on its own initiative and make a settlement of any issue that does not extend beyond its frontiers. Still more do the "utilisation of the practical knowledge of the workpeople," the "co-operation in carrying new ideas into effect," and the other opportunities of co-operation and discussion that the Whitley Report contemplated, find their appropriate field in the individual works or small district rather than in any national organisation.

It may be noted in passing that one criticism of the Report did less than justice to the practical wisdom of its authors. The Report was strongly criticised by some advocates of "industrial self-government," because it began with the National Council instead of making Works Committees, upon the effective functioning of which any real self-government must depend, the basis of its scheme. The Committee were not unconscious of the importance of works committees; but they also faced a practical obstacle to their immediate establishment, which the critics ignored. The crucial constitutional problem to be faced in setting up a works committee is the relation of the committee to the trade unions which have members employed in the works. If a majority or a large minority of the workpeople are members of no union, the employer may fairly contend that to restrict membership to union nominees would be to make the committee unrepresentative of the workpeople it was intended to represent; on the other hand, the unions may with some justice suspect a committee they do not control as a possible, and more pliable, rival in the representation of the workpeople's interests. Even if there is no problem of non-unionists in the works, difficulties may arise from the relations of the different unions represented; a large engineering works employer at the time of the Whitley Report would have regular dealings with upwards of twenty unions, some of which were rivals on the worst of terms with one another.

Accepting then the contention that works committees rather than National Councils were the need, the Whitley Committee were forced to recommend the establishment of the national joint organisation first, in order that it might settle for the industry the terms on which, and the constitution under which, works committees should be set up.

The principles, then, on which the Joint Industrial Council scheme was founded were sound, and their soundness was to receive an expensive verification in the industrial troubles of the industries that ignored them; but it is, perhaps, to be regretted that the Committee embodied them in a set scheme. It would have been easier for the Ministry of Labour, when it came to put the Report before the industries of the country, had the Committee confined itself to stating the importance of efficient and appropriate conciliation machinery in the post-war period, and the conditions which such machinery must satisfy, and then left the Ministry to convene conferences and negotiate directly with each industry in turn. By that procedure the whole conciliation machinery of the country could have been systematically reviewed, and the need of modification and extension pressed. As it was, the initiative in any reform had to come from the unions or employers' associations in an industry; the industries with longest established arrangements were naturally deterred from adopting a new model which they had not devised themselves, and the industries which most needed reform ignored the Report. Hence the revision and reform of conciliation machinery, which should have been undertaken immediately, was deferred; and, just as we find the Whitley principle of trade-union recognition reaffirmed in 1919 and 1928, so we find the National Industrial Conference and the Mond Conference calling attention in turn to the neglected task which it was the chief object of the Whitley Committee to consider.*

* *Cf.* Report of Provisional Committee of National Industrial Conference, 1919, p. 8: "The employers' organisations and the trade unions should enter into negotiations for the purpose of the establishment of machinery for the avoidance of disputes, and the machinery should provide, where in any question at issue there are more than one employers' organisation or trade union representing the same class of employers or workpeople, a representative method of negotiation, so that settlements arrived at will cover all parties concerned."

There remains the one element of novelty which the Whitley Committee proposed to introduce into conciliation arrangements. It is implicit in the scheme of Joint Industrial Councils as a whole, and is stated explicitly in the last paragraph but one of the Report.

"We believe that regular meetings to discuss industrial questions, apart from and prior to any differences with regard to them that may have begun to cause friction, will materially reduce the number of occasions on which, in the view of either employers or employed, it is necessary to contemplate recourse to a stoppage of work."

This incidental benefit of regular contact in industrial negotiations was a matter of old experience; the element of novelty was the proposal to reorganise the machinery of industrial relations in such a way as to secure it at all times. In an illuminating phrase Mr. Clynes said that the object was "to produce an atmosphere in which the appeal to reason is as easy as the appeal to passion." Hence the Councils were to be *standing* councils, meeting regularly, with a reference that was not restricted to wages and hours, but extended to any subject of common interest to the two sides. There was a danger in the proposal; regular meetings, when there is no real occasion for bringing people together, are a vexation of spirit and a provocation of imaginary grievances. But the circumstances of the return to peace might be expected to afford matters of common interest to the employers and workpeople, which were not necessarily matters of controversy between them; whether similar subjects would suggest themselves in adequate quantity under conditions of normal industry was less certain. The practically important element in the Government's "acceptance" of the Report was, therefore, the promise to treat the Joint Industrial Councils that were formed as official standing consultative committees on all questions affecting the industries they represented. Since the relations of Government and industry are intimate and involve constant changes in law and administrative regulations, it was conceivable that a deliberate Cabinet policy of constant consultation might have kept employers and trade unions so occupied with other work that trade disputes might have sunk to a secondary place.

V.—Reception of the Report.

The reception of the Government's appeal to industry to give effect to the Report brings out the difficulties involved in leaving the initiative in reforming industry to the parties in industry. With little exaggeration it may be said that the Report was ignored by the well-organised industries, for whom it was intended, and eagerly accepted by the ill-organised industries, for whom it was not intended. A brief consideration of a few of the industries, which the committee must have had in mind, will bear this out.

The coal-mining industry was the most completely unionised of all the great industries. The leaders of the mining unions, so far as they were able to spare time from the pressing business of negotiating wage advances and improvements in conditions, were, however, preoccupied with the much more far-reaching proposal of nationalisation. The railway unions were in a similar position. Their industry also was under Government control, their political aim also was nationalisation. In the exhilaration, which the successful exercise of abnormal economic bargaining power during the war had excited, nationalisation did not seem a remote or difficult ideal. Its early realisation was expected, and the new demands for control, which the Whitley Scheme was designed (although it did nothing in reality to satisfy), were to be satisfied by association of the miners' and the railwaymen's representatives with the representatives of the Government in the direction of the nationalised industries. Neglect of the Whitley proposals implied no hostility; later the unions were to demand them; the neglect was due solely to preoccupation with the more drastic proposal. In both cases the neglect of the unions was seconded by the apathy or hostility of the employers, who in both industries were opposed to national negotiations with the unions.

In the engineering industry the circumstances were as unfavourable. The union organisation, though extensive, was unequal and sectional. The formation of an Industrial Council, had the unions but seen it, would have provided an opportunity to face and, with the assistance of the Government, rationalise the organisation of the different

sectional trades in unions; the Council would have been industrial in scope, but its union members would have represented sections; thus a working solution might have been attained of the inevitable overlap of crafts and industries. But the skilled unions were more interested in securing the promised restoration after the war of the practices and trade customs which they had agreed to suspend during the war. They had their way, and were left with their old divided sectional organisation in the face of a united industrial association of the employers' side. Even if the question of the suspended practices had not been there to distract them, there was an active opposition in the engineering industry, fomented by the left wing or shop steward element in the unions, which was attracted by the possibilities of self-government through delegated control of workshops and collective contracts. A similar movement weakened the ambitious Industrial Council of the building industry, the original movers in the formation of this organ of co-operation between employers and employed being drawn away by the attractions of a Guild movement, which displaced the employer and substituted a self-governing association of workmen. The Council broke down, however, through the withdrawal of the employers as a protest against the unions' policy in a wage dispute. The so-called Building Guilds came to an end by the ordinary process of insolvency.

Of the other organised industries cotton may be taken as an example. Both unions and employers' associations ignored the Whitley Report, because they were satisfied with their existing conciliation machinery and averse to introducing into it any element they did not understand. It is a sound instinct to leave undisturbed constitutional machinery that is functioning reasonably well, and the Whitley Committee had not supported its proposals by any wide or profound comparative study of conciliation schemes in different industries, by which the superiority of its proposals might have been demonstrated.

On the other hand, the unions in industries, in which unionism had only recently attained a widespread influence, welcomed the Report. It promised to confirm the war-time

gains in the way of recognition and standard rates and conditions. Perhaps for this reason the most active propagandists of Joint Industrial Councils in the trade-union world were certain officials of general labour unions, which had brought in hundreds of thousands of unskilled and semi-skilled workers to unionism for the first time. With their interest in small but often growing trades, which the older skilled unions ignored, they actively seconded the activities of the Ministry of Labour, and helped to establish a majority of the seventy-three Councils that the Ministry reports.

Individual employers in some cases, having realised the advantages of a joint settlement of conditions on a uniform basis for the whole of a trade, welcomed the Ministry's proposals; but in the majority of cases they had to be coaxed into accepting the scheme. There was an exception in the case of certain trades, where trade unionism was so weak, and wages comparatively so low, that a Trade Board could properly be set up. Here the employers were inclined to welcome the Joint Industrial Council proposal, and the Ministry had to divert and deter them. The breakdown of Cabinet control of the departments after the war is illustrated by the divergence between the Ministry of Labour and the Ministry of Reconstruction. The officials of the latter, influenced apparently by the current doctrine of industrial self-government, carried on an active propaganda in trades and industries, for which the Whitley Committee had explicitly recommended, not Industrial Councils, but Trade Boards; at the same time the Ministry of Labour was proposing to extend the Trade Boards Act to these same industries, while assisting in the establishing of Industrial Councils where there was a reasonable degree of trade-union organisation to provide the workpeople's representation. The issue was the creation of a new type of Council, the Interim Reconstruction Committee, to bring together employers and employed for purposes other than wage questions, even if a Trade Board existed in the industry.*

The same reason that led the newly organised industries to welcome the Report explains the welcome given to it by

* Cf. *The Round Table* for December, 1918, "Industrial Reconstruction and the Government," p. 147.

the unions and associations of Government employees. Before the war the Government was backward in recognising the unions of its own employees; it could hardly now refuse to adopt for itself the treatment it prescribed for other employers. To judge by the rate of progress and the pressure that the unions had to exert, Government Departments were reluctant to commit themselves to formal and regular negotiations with trade-union representatives. There were certain difficulties also peculiar to Government employment. The ultimate employer, the taxpayer, was represented by officials, who were themselves employees; this difficulty was got over by drawing a line between the higher officials immediately responsible to the Minister, and the rest of the staff. And Government employment constituted a system in which the departments, while employing some of the same classes of labour as private industry, did not work for the same commercial markets. Government Departments did not, therefore, join Industrial Councils in which private industry was represented, though Local Authorities engaged in electrical supply and other public utility services did so co-operate. A double system of Councils was built up, one set representing separate Departments of State, the other separate economic activities or trades, in which several Departments were concerned. The Treasury and Ministry of Labour were represented on all the Councils, and differences over wages in the last resort went to arbitration.

There remains a group of well-organised industries of the type for which the Report was intended, in which it was welcomed by employers and unions. In addition to building and pottery, where the Councils were the outcome of an independent movement, and the previously existing machinery for dealing with wage questions was left to function undisturbed, printing, boot and shoe manufacture, and woollen and worsted were the chief. The formation of a National Industrial Council was a natural development of efficient, though less systematic, arrangements for collective bargaining, and in completing the machinery of conciliation, it at the same time widened its scope. Here the possibilities of the scheme can best be judged, since the conditions which

it assumed were present. Altogether the Ministry of Labour was able to report in 1923 that seventy-three Joint Industrial Councils had been established and thirty-three Interim Reconstruction Committees; of the latter fourteen became Joint Industrial Councils. In 1922 fifteen of the Joint Industrial Councils (a number increased to twenty-five by 1925) and thirteen Interim Reconstruction Committees had ceased to function. In the aggregate in 1925 it was estimated that three million workpeople were covered, a figure that may be compared with one and a half million under the jurisdiction of Trade Boards; but since then another large Council has lapsed into a state of suspended animation.*

VI.—Experience of the Scheme.

The ten years' experience of the Industrial Council method which it is now possible to study, confirms the view of the Whitley Report, which is taken in the preceding sections. While the Councils can show little that deserves the description of an extension of industrial self-government, they can point to a record of industrial peace that contrasts very favourably with that of industries that ignored or rejected the Report, and to many interesting innovations in industrial relations that help to explain this record. A direct comparison of the records of different industries is indecisive, because the maintenance of peace depends more on the nature of the conflicts that arise than on the machinery for dealing with them, and the industries in which the biggest post-war disputes have occurred—coal, engineering, cotton—are those in which the post-war commercial situation has created the biggest difficulties. Moreover, some of the industries that have made the most successful use of the Whitley Scheme, such as boot and shoe manufacture and printing, were distinguished for the successful negotiation of their differences before the war. Again, the constitutions of the trade unions concerned have probably a more intimate influence upon industrial relations in an industry than the nature of

* Report on the Establishment and Progress of Joint Industrial Councils, H.M. Stationery Office, 1923; Balfour Committee, *Survey of Industrial Relations*, 1926, p. 300.

the conciliation machinery employed. Still the contrast between the experience of the great organised industries that rejected the Whitley Report and that of the lesser industries that adopted its recommendations is too striking to be accidental.

The coal-mining industry has been responsible for more than half of all the days lost in industrial disputes since the Armistice. No Joint Industrial Council or any other constitutional device could have relieved the industry of the difficulties with which it was faced by the withdrawal of Government control the moment post-war prosperity came to an end, by the growth of the use of substitutes, by the rise of competing supplies in other countries, by the check to demand due to prolonged trade depression. Moreover, the mine-owners have continuously objected to relations with the unions on a national basis. But few people, outside the industry itself, would take the view that the negotiation of the difficult changes in wages and conditions necessarily involved have been conducted with as little friction as was possible; and the summary of grievances, put before the Royal Commission by employers and miners in 1925, included many cases of misunderstanding or imperfect sympathy of the kind that regular association on a Joint Industrial Council might have dissipated.* It is significant that when the Government of 1920 embodied in Part II. of the Mining Industry Act of that year a scheme of joint committees, representative of the pit, the district, and the industry as a whole upon the Whitley principle, the mine-owners were ready to accept it, but the miners, intent upon their policy of nationalisation, refused it; twelve months later, after the 1921 stoppage, the miners gave notice of their willingness to work the scheme, but the owners were now unwilling, and the proposal, being dependent under the Act on the consent of both parties, lapsed. The railwaymen in 1918, like the miners and for similar reasons, were not interested in the Whitley Scheme. With more wisdom they changed their attitude, when Parliament legislated for their industry and supported the adaptation of the Whitley

* *Cf.* Report of the Royal Commission on the Coal Industry (1925), Cmd. 2600, pp. 109-111.

Scheme to railway conditions, which was embodied in the Railways Act of 1921. The conditions of the railway industry have not been so adverse as those of the coal industry; such as they are, however, they have been materially eased, rather than aggravated, by the spirit in which relations between management and staff have been conducted on the Councils.

The experience of the industries that did adopt the Whitley Scheme points to the same conclusion, that the continuous contact and co-operation over non-controversial business, which an Industrial Council involves, are an aid to the peaceful settlement of differences, even if they cannot offer a complete guarantee of peace. On two occasions in the pottery industry, when all the resources of the old conciliation procedure had been exhausted and a deadlock reached, the National Council was able to intervene and secure a settlement. A stoppage in the woollen and worsted industry (Northern District) was ended in 1925 by the action of the Council in appealing to the Ministry of Labour to appoint a Court of Enquiry under Part II. of the Industrial Courts Act. The Councils of several industries have overhauled their procedure for dealing with differences and made provision for arbitration, where an agreed settlement could not be reached. A factor in industrial relations, that the opponent of organised collective bargaining overlooks, is the growth in the sense of responsibility that comes from responsibility itself. Industrial Councils have set themselves to improve the trade-union organisation of their industry, and have found, as the Royal Commission on Labour pointed out as long ago as 1894, that it is the ill- or incompletely-organised union, not the well-organised and established union, that causes most disturbance.

While improving the machinery for settling differences, the Industrial Councils have done much to prevent the occurrence of differences; in three directions in particular. First they have systematised and standardised rates and conditions. It is a general characteristic of an ill-organised industry that wage-rates and conditions for similar work vary from firm to firm and from locality to locality. In a period of rapid economic change this variation complicates

the business of adjustment, and excites discontent by the comparisons it provokes. In the second place, the Councils have promoted and guided the establishment of works committees, which are the most effective lightning conductors for the discharge of petty irritations. The third direction in which they have anticipated difficulties is in the collection and circulation of statistics. In all conciliation and arbitration proceedings much of the time and more of the temper of the parties is taken up with arguments upon questions of fact, which could be settled beyond argument by any competent accountant, who was given access to the books of a few representative firms. The first Council to be established, that in the pottery industry, stressed the importance of collecting figures of average profits, prices, turnover and wages, in the light of which adjustments could be discussed. Other industries, with more or less completeness, have included the same object in their functions.*

The anticipation by the Whitley Committee that the transition from war conditions of industry to peace would provide opportunities of co-operation between employers and employed was amply borne out. Two instances will serve. Military service interrupted the apprenticeship of many youths, who came out of the Army with a man's needs but only a boy's skill. If no provision was made, the unions, insisting on their usual conditions, would either exclude such workers from employment or require them to serve out the normal term of apprenticeship; employers, on the other hand, could not afford to pay for skill which the ex-service man did not possess. To meet the difficulty the training department of the Ministry of Labour approached employers and unions, to agree on the terms of training and pay for an accelerated apprenticeship in such cases, and

* It may be noted that for the purpose of wage negotiations an average by itself is of comparatively little value. What is needed is the range and dispersion within the range; this would show how many persons would be affected by raising the minimum wage paid, how far a low average is due to a very unequal distribution of the total sum paid in wages, how far low wages are correlated with low prices and low profits, and what change is necessary or justified when a uniform percentage advance or reduction is not justified.

Joint Industrial Councils generally undertook this work, through special committees, for their industries. Similar arrangements had to be made for the reception and training of partially disabled soldiers and sailors; no trade wished to exclude them, but none wished to take more than its fair share. Joint Industrial Councils provided a machinery, by which the openings for men with different types of disability could be reviewed, and the numbers to be taken, conditions of training and terms of employment agreed. Another instance of co-operation with a Government Department was afforded by the framing of Orders, embodying welfare provisions that the Home Office is empowered to impose on industries, and applying the Particulars Clause of the Factory Act, by which an employer is required to inform every worker of the basis on which he is being paid. Certain Councils have interested themselves in the recruiting and training of labour for the industry, which has brought them into contact with the Employment Exchanges of the Ministry of Labour and the technical division of the Board of Education. At least one Council has instituted a scheme of unemployment insurance supplementary to the compulsory national scheme.

It would require a volume to describe all the experiments that the Councils have tried. Any such survey would, however, bring out the chief weakness of the Councils, and explain why as a whole they have never become much more than useful conciliation boards. This weakness is the lack of executive strength to carry out the ambitious objects with which their constitutions are all headed. There is no lack of functions, unconnected with wages, that they could undertake, and members have been fertile in suggestions of new tasks. But work of the kind required—the compilation of statistical returns, the drafting of schemes of industrial training, the elaboration of rules to govern conditions of work, the systematisation of a confused mass of wage-rates or trade customs, to mention only the more obvious—calls for the continuous labour of specialists. Now the members of the Councils are usually not trained statisticians, experts in industrial hygiene or technical education; they are busy employers, overworked trade-union officials or wage-earners,

who find it as much as they can do to spare the time for attendance at meetings of Council and committees and discussing material prepared for them beforehand. Everything, therefore, outside the ordinary business of wage negotiations depends on the officials. Some Councils have appointed full-time secretaries: but as a rule the secretarial work is done by the officials of the chief employers' organisation and the chief trade union represented on the Council, and, even when an independent secretary is appointed, his time is fully absorbed in the routine administration of preparing agenda, keeping minutes, and supervising committee work. There is no staff to work out the bright suggestions that enthusiastic members throw out, and the tendency is for programmes and discussion to outrun executive capacity. The Council makes a serious call on the time of its members, and brings them together without always justifying the call it makes. What the Councils have achieved so far is no indication of what a Council might achieve, that was prepared to incur the expense of maintaining a trained statistician, a lawyer, and a secretarial staff on the scale that a Parliamentary commission would employ for equivalent work, an expense that is trifling compared with a cost of a single stoppage in an industry.

The importance of detailed executive work of this sort is illustrated by the success of the Councils in dealing with such complicated problems as the training of disabled soldiers, or the detailed regulation of factory conditions, since in these matters they had the services at their disposal of the officials of the Government departments concerned. An advantage that the statutory Trade Board enjoys over the voluntary Industrial Council is that, being statutory, it is provided with a secretariat and offices by the Ministry of Labour; thus continuity of administration is assured and an efficient carrying out of the instructions of the Board.

VII.—The Demand for Compulsory Powers.

It is necessary to refer to an explanation frequently given for the failure of some Industrial Councils and the weakness of others—that they lack compulsory powers. The Whitley

Report, again following the Royal Commission on Labour, had referred to the grant of compulsory powers in paragraph 21:

"It appears to us that it may be desirable at some later stage for the State to give the sanction of law to agreements made by the Councils, but the initiative in this direction should come from the Councils themselves."

The Industrial Council in 1913 had recommended that collective agreements, binding a majority of the workpeople in a trade, might, on application to the Board of Trade, be embodied in an Order and made binding upon the whole of the trade. During the war this principle had been adopted in the regulation of Munitions Workers' Wages under the Munitions Amendment Act of 1917. Since the collapse of prices in 1920 and the consequent pressure to bring down wages, a number of Industrial Councils have taken the initiative in this direction, have received the support of the majority of the Councils, and have even been able to secure the introduction of a Bill into Parliament embodying the principle, which received a majority on second reading, but had never any chance of proceeding further.

The arguments for giving the force of law, at any rate, to the more important determinations of Joint Industrial Councils are obvious. It would ensure a real uniformity of conditions, and so protect the loyal employers on the Council against the unfair competition of less scrupulous or more hard-pressed firms, that refused to observe the Council's determinations. It would relieve the trade unions of the handicap they labour under in negotiations from the knowledge that they cannot guarantee the observance throughout the industry of the terms for which they stand out. Moreover, one reason which the Minister of Labour gave for rejecting the proposal when it was first urged in 1920 involved a confusion of issues.* He argued that the legal enforcement of collective agreements like industrial council determinations involved compulsion upon the employers; such compulsion could not reasonably be applied, unless similar compulsion were applied to the workpeople, penalties for breach being applied equally against both; this, however,

* *Cf.* Report on the Establishment and Progress of Joint Industrial Councils, p. 167.

would involve a departure from the principle of the existing trade-union law, under which it is impossible to bring an action against an association for breach of an agreement. It is not obvious what this has to do without the legal enforcement of a particular wage. The compulsion would be, not upon the employers' association, but upon the individual employers not to employ labour at less than the stipulated rate; an exactly equal compulsion would rest upon the workman not to work at less than the legal rate. The liability of unions and associations to actions for breach of contract would not arise, any more than it does in the enforcement of Trade Board determinations.

The objections to the proposal turn, not on the object it has in view, but on the method by which it proposes to attain that object. The object is the primary object of all collective bargaining. Now industrial peace is bound up with the existence of clearly defined and generally accepted standard rates; standard rates are the chief factor making for order in the field of industrial relations. The ordinary worker regards himself as ill or well treated according as he does not or does get his full standard rate and that rate does not or does keep pace with the rates in comparable occupations; like most other people, he judges his position, not absolutely, but by comparison with others. Abolish the standard rate, and industry becomes a chaos of individual bargaining in which every employer and every workman goes his own way and makes the best terms for himself, irrespective of the reaction of his conduct on the trade of which he is a member; and the normally conservative and settled artisan becomes a discontented nomad, ever moving from job to job in the hope of securing an extra penny an hour. But standard rates and conditions have been established and maintained in the past without legal enactment, and the Joint Industrial Council was not designed to frame agreements that could be enforced in the courts.

Sharp definition and precise statement are essential in any rule that is to be enforced in a court of law, since the court must base its decision on what the rule says, not what the framers of the rule may have meant to say. Joint Industrial Council determinations are not likely to satisfy this condition.

The areas over which the Councils operate are usually ill-defined, because they depend on the membership of the unions and employers' associations that combined to form the Council. The terms in which agreements are couched are often very general; which raises no difficulty so long as the carrying out of them depends upon the people who made them, and any misunderstanding or obscurity can be corrected by reference back to the Council. Take such an agreement into a court of law, however, and the defendant would use every loophole offered by the indeterminateness of the Council's scope or jurisdiction and the looseness of the phrasing of its agreement to avoid compliance. The Councils are voluntary, not statutory bodies; their merits—their spontaneity and adaptability, the spirit of compromise and co-operation they engender—arise from this condition. To ask for compulsory powers is to ask Parliament to lend its binding authority to the decisions of bodies, the scope, constitution, procedure and objects of which Parliament did not prescribe and does not control.

Such an extension of the Council's powers would fundamentally change their character; and it is unnecessary. If an industry, which possesses a Council, is unable to enforce its determinations by ordinary trade-union pressure, there is a statutory remedy for its difficulties provided. It can apply for a Trade Board, which the Minister of Labour can impose by Order under the Trade Boards (Minimum Wage) Acts. In that case the Minister will satisfy himself as to the composition of the wage-fixing authority by appointing it himself; but there is no doubt, where a representative Council exists, that he would take the members from the Council. It would be necessary to add one or more appointed members from outside the industry, but this is a reasonable condition when the powers of the State are to be used. The exact scope of the Board (or Boards) would be carefully defined in the Order establishing it; every wage determination would similarly be embodied in an Order drafted with a view to being enforced in the courts. And the secretarial work involved would be undertaken by permanent officials, whose business it was to prepare wage orders, that could be enforced in the courts.

VIII.—Industrial Devolution.

The demand for compulsory powers was, however, supported on broader grounds: that Joint Industrial Councils, if they are to achieve their true object, must be made a part of the formal constitutional machinery of the country; for their true object was to introduce a system of Industrial Devolution, that would relieve the existing organs of Government of their present burden. If practicable, such a development is obviously desirable. The larger part of domestic politics is now concerned with industrial problems, that require for their solution the knowledge and experience of the people most affected, the people in industry itself. Departmental action under statutory powers, on the other hand, must always have a quality of harshness; to confine itself within its statutory limits it must be guided by rules; rules can never allow for all the intricacies and individual susceptibilities of industry, yet there must be no exceptions. The "wooden" character of departmental action and its tendency to "forms" are often laughed at; what is not recognised is that such rules and records are the only way of maintaining the responsibility of the official to the people through Parliament, and so preventing the arbitrariness of the irresponsible bureaucrat. Devolution is needed to relieve the congestion of work under which Cabinet and Parliament labour at present. Self-government again seems to offer the easiest way of satisfying the cry for liberty and self-determination in industry. Modern industry involves the aggregation of workers in large units and their subordination to discipline in order to ensure co-ordination in the work of production; this discipline should be self-imposed and the authority of the industrial officer exercised not arbitrarily, but in accordance with laws made by the industry itself. The demand for industrial devolution has the same motives and objects as the demand for territorial devolution. The true nature of devolution is seen in its territorial applications. A representative body would hardly be described as a devolutionary authority, unless it had, first, the power of making regulations or by-laws that could be enforced; and, secondly, it had within its limited field a *general* authority.

The demand for industrial devolution is in effect this: that the representative body of each industry shall have devolved upon it, first, the regulating functions at present exercised by the departments of State, and secondly, the right of extending and revising such regulations. Since no one suggests that industrial organisations should be limited in their practice of voluntary agreement, it is only when objection is raised against State regulation alongside of voluntary agreement, or the demand is made for powers to enforce voluntary agreements, that any novel principle is introduced.

Devolution in any full sense such as this is difficult of application to industry. The first difficulty is that of demarcating the respective spheres of different Industrial Councils or Trade Parliaments. It is easy to see that certain units constitute an industrial group—*e.g.*, the textile group—others a subordinate group—*e.g.*, the woollen industry—others a subordinate group again—*e.g.*, the dyeing and finishing or the spinning industry. Where should the line be drawn for the purpose of industrial representation? Is engineering an industry? or an industrial group, with agricultural machinery, motors, textile machinery, and electrical engineering as independent industries? The community of interests of a number of industrial units varies for different purposes, and a grouping that will serve for one purpose will be inadequate for another. Thus we have a Textile Institute, a Wool Textile Association, a Spinners' Federation; an Engineering Employers' Federation, a British Electrical and Allied Trades Association, and some scores of craft unions—different groupings of the same units for different purposes. Again, industries overlap. English railway companies engage in locomotive engine-building, catering, and the management of docks; should these subsidiary undertakings be represented on a Railway Council? Engineering firms commonly have foundries attached, but there is an independent iron-founding industry. Dyeing overlaps all the textile industries. How should the boundaries be drawn in these cases for the purpose of a general system of Trade Parliaments?

One important group of interests that any complete scheme of industrial organisation must represent and express

associates men in groupings that are quite independent of the "industrial" principle—namely, occupational interests. In every industry many occupations are involved. The different occupations have common interests, but also conflicting interests; if the former induce joint action, the latter require separate representation. Thus joiners and shipwrights, fitters and plumbers compete in the shipyards for work on the margin of their trades, and a jealous and exact demarcation of work is necessary to preserve industrial peace even between different crafts in a single union. Skilled labour competes with semi-skilled, semi-skilled with unskilled, men with women. Where a group of occupations fall wholly within the limits of a single industry—as the different occupations in the cotton industry in the main do—it is comparatively easy to adjust the conflicting claims of the occupational and the industrial principles. An Industrial Council could in this case deal with occupational interests through sectional committees. It is noteworthy that Industrial Unionism, although the basis of its claim is the need for an organisation that can control conditions generally and not deal merely with wage questions, has been most successful in those industries, such as coal and railways, where the typical occupations concerned do as a matter of fact fall entirely within the limits of the respective industries. But many occupations overlap industries. Ten per cent. of the workers classified under the occupational heading of "building" in the last pre-war census were returned as working outside the building industry. A third of the wood-cutting machinists were outside their own industry; 21 per cent. of the engineering trades outside engineering. On the other hand, 20·7 per cent. of the workers returned as employed in the engineering were classed under other occupational headings, and the same overlap occurs to a greater or less extent in every industry. This overlap does not, of course, prevent the association of different occupational groups for "industrial" purposes; it does preclude the possibility of superseding occupational organisation altogether, and entrusting all functions of industrial regulation to a single representative body in each industry.

Perhaps the clearest indication of the difficulty of relying

exclusively on an organisatiou on the basis of industries is the case of new industries. Every decade sees an important new industry established; aircraft, motors, the cinema, asbestos, rubber are recent examples. They are invariably constituted by the combination of existing crafts and occupations, with a minimum of labour specialised exclusively to the new purpose. In time the new industry trains its own labour and separates itself from other industries; but the boundaries of the provinces of industry have been disturbed, and will not have time to settle before they are deranged again by the rise of other new industries. New industries should be the field in which experiments in novel forms of industrial organisation should be made; in practice the reformer is the last to give them any attention. The public organisation of industry on an exclusively industrial basis is characteristic of the stationary technique and unchanging markets of an earlier age. Modern industry changes too rapidly, new trades ever unfolding out of old, for any organisation representative of particular industries to be charged with the exclusive power of regulating industrial relations and conditions. The proper functions of such an industrial organisation as a Whitley Council are consultative, not administrative, survey, not executive, or at most the handling of temporary problems and the making of provisional adjustments. The relatively permanent machinery of the territorial State, ill adapted as it is to industrial functions in many ways, is the only organisation with a basis definite and stable enough to undertake the general regulation of economic conditions, and to exercise compulsory powers without danger to liberty.

IX.—The Extension of Collective Bargaining.

If the view of the Whitley Report that has been taken here is correct, Joint Industrial Councils fall into place as in a movement that was dominant in industrial relations before the war, and has attained a natural development and completion since the war. For a century before the war the method of collective bargaining had been gradually superseding the settlement of wages and other conditions of

employment by individual bargaining; but even in 1914 it had occupied the whole field in perhaps no industry, and in most industries occupied only a centre surrounded by a ragged edge of unorganised bargaining. The fifty or sixty Joint Industrial Councils that survive represent a big extension of organised and systematic negotiation into territory formerly governed by intermittent and haphazard meetings. They have effected a considerable standardisation of terms of employment and codification of agreements and customs, and so fixed, as it were, a habit of collective bargaining, which the war had encouraged, just before the post-war depression came to discourage it.

In judging the extent and permanence of this development Joint Industrial Councils must not be considered alone. The great extension of Trade Boards in the same period, from eight trades employing under half a million workers to thirty-five employing a million and a half, is an even more important factor in the same change. Constitutionally and externally Trade Boards are something quite different from Joint Industrial Councils; they are statutory, not voluntary bodies, imposed upon an industry by the State, not organised by the industry itself. They include an external element, in the "appointed members," one of whom acts as chairman, and depend on the Ministry of Labour for all secretarial work. Their decisions, if accepted by the Minister of Labour, have binding effect, and can be enforced by criminal prosecution as well as by civil action. Yet their membership is not very different from that of a Joint Industrial Council, consisting as it does predominantly of representatives of the organised workpeople and employers; their methods of discussion and the atmosphere in which the discussion takes place are very much the same; they have similar powers of advising the Government. Essentially they are a device for compelling collective bargaining, where it had not developed spontaneously, and their character is determined very largely by the contact and intercourse which regular meetings involve. The fruits of this character are the same as those by which Industrial Councils are distinguished; the record of industrial peace in Trade Board industries is even better than that of the Industrial Councils.

The Trade Board method of compulsory collective bargaining, with State enforcement of the resulting rates, has been extended, with modifications called for by the industry, to the last of the great unorganised commercial employments, agriculture. Thus the whole field of commercial wage-earning employment is now covered with some provision for organised collective bargaining. The only large employment which is untouched is domestic service. Here the relations between employer and employed are fundamentally different; the employer does not, unless exceptionally, employ the worker on work for the market, and the worker is not usually a unit in a large-scale establishment, in which a single employer confronts a large number of workers. The domestic worker has not, therefore, the same need of trade-union support as the industrial worker. The change that has come over the industrial field can be measured by contrast with the year 1910, when the Board of Trade published a report on collective agreements between employers and workpeople in the United Kingdom.* It was there estimated that the total number of workpeople whose conditions of labour were specifically regulated by the agreements collected was only 2,400,000. That the report adds "in addition to those directly affected, there are a large number of other workpeople, whose wages, hours of labour, and other industrial conditions follow, and are in effect regulated by, the Collective Agreements in force for the time being in the trades concerned," does not lessen the significance and importance of the development we are studying.

The Whitley Reports and the contemporary extension of collective bargaining to Trade Boards and agriculture marked the close of an epoch. Collective bargaining, for which organised labour had been fighting for over a century, was authoritatively pronounced normal and necessary, and was extended, potentially if not actually, over the whole field of wage-employment for the market. If the Reports marked also the opening of a new epoch of more intimate partnership between employers and employed, they could do so only because the field of collective bargaining about wages and conditions had become co-extensive with the field of

* Cd. 5366, p. iii.

employment for the market. Until this extension had taken place, an advance secured by labour in an organised industry might always be recovered by the employer from an unorganised industry. The competition between industries for shares in the joint product of the national industry is as important a factor in the distribution of the national income as the competition between employer and employed in any one industry for shares in the revenue of that industry, and the unorganised trades, when organisation was patchy and unequal, were always liable to have transmitted back upon them, in lower prices and wages, the pressure which strong trade unions were able to impose upon employers in other industries. The extension of organised collective bargaining over the whole field of employment is the only remedy for this inequality, and an advance in organised trades towards a new type of industrial relations was perhaps premature, until the position of the wage-earners in the weaker industries had been safeguarded. If then industry is on the threshold of a new epoch in industrial relations, the extension of Trade Boards and Agricultural Wages Boards, rather than the establishment of Joint Industrial Councils, has made it possible.

The gradual extension of collective bargaining was probably inevitable, even if no war had intervened to accelerate it, because the mass of the wage-earning population are convinced that it is essential to their economic interest. The condition of wage-earners, who had no trade union to protect them, before Trade Boards were provided in substitution, suggests that they are right. The general extension of collective bargaining should make easier the adjustment of wages and conditions to economic change, the chief problem with which industry is faced. If the extent of industrial disputes in recent years appears at first sight to negate this conclusion, it should be remembered that the problems of adjustment owing to the war have been more numerous and more difficult than in any previous period; it should also be noticed that the *number of disputes*, as distinct from the number of persons involved and working days lost, has been much less than before the war.* Collective bargaining, however,

* Average annual number of disputes involving not less than ten workpeople and lasting more than one day: 1910–14, 936; 1921–25, 656.

by itself is not sufficient to secure a satisfactory adjustment of wages and conditions, and it may be permissible, in conclusion, to refer to two or three additional provisions to the need of which post-war experience would seem to point.

X.—Desiderata.

The first and most obvious need is some method of co-ordinating rates of wages in different industries, or some organisation that will ensure that consideration is given to the general economic situation in any settlement, as well as to the circumstances of the particular industry that makes it. Some such co-ordinated consideration is needed for a double reason—in order to prevent workpeople at a temporary bargaining advantage from exploiting their advantage to the detriment of other trades; and in order to prevent employers from compelling workpeople, who are at a temporary or permanent disadvantage, to accept rates and conditions out of all relation to the skill and other qualities called for in their work. A couple of instances will make this need clearer.

It is frequently alleged that high railway wages, by involving high railway rates, are hampering the revival of the "heavy" industries, with whom freight is an important element in cost, and so reducing wages and employment for the workers in these industries. If this allegation is justified, it should be put to the railway workers by an impartial body, whose business it is to put before wage conferences the facts of the general economic situation and the probable reaction of their decisions upon other industries. For interested chairmen of companies in the "heavy" industries to accuse the railwaymen of selfishness is merely to irritate them.

An example of an industry in which the workers are at a bargaining disadvantage at the moment is coal-mining. Earnings in this industry were not below the average of the country before the 1926 lock-out; now they are below the average, and, relatively to pre-war standards, much lower than most other industries. This reduction, coupled with an increase in hours, has not put the industry on an economic basis, a basis on which receipts cover costs, and has reduced,

not increased, employment. Ought the miners to submit to further reductions in wages, or are they right in thinking themselves ill-used ? As the agreements that followed their defeat in 1926 run out, the question will come up, and threaten industry with another stoppage. Now to say that wages should be such that the industry is on an " economic " basis is to beg the question; there is not one, but many " economic " bases, if by economic is meant a basis on which costs are kept below receipts. On the present basis, close on 300,000 miners are unemployed, and still receipts do not cover the costs of keeping employed the other 75 per cent. To employ as many miners as at present (with the present level of industrial and commercial competence) and cover costs it would be necessary to force wages down still further. Then how far ? If hewers' wages for a full week could be got down to the level of a pound a week, it would no doubt be possible to employ without loss not only all the miners at present employed, but also those who are unemployed; should their wages be brought down to that figure ? On the other hand, a portion of the industry could be made to pay even on the 1924 (pre-stoppage) wage basis; probably half or more, instead of a quarter, of the miners in the country would be forced out of employment, but the industry —what was left of it—would be upon an " economic " basis.

Are there no limits to the range within which wages should be forced up and down ? It appears to me that the only practical limits are the rough limits that are set by a comparison with rates in the other industries of the country. As I have argued elsewhere,* it is not only provocative of a sense of injury and injustice, but leads to an uneconomic application of a country's resources, to compel any large class of workpeople to accept wages that diverge markedly from the average rate of the country for the skill and other qualities required of them. Absolute parity is not called for; the workpeople themselves will usually accept a temporary reduction in preference to extensive unemployment; but the extent of the divergence should be a matter of collective agreement. Whether, however, these are the proper limits or not, the principle on which, ideally, wage negotiations

* *Cf. infra*, viii.

should be conducted is, that no wage should be settled without a reasonable consideration of other wages. The practical inference from this is that some public authority should intervene, on behalf of the community as a whole, in all important wage negotiations, simply to put the facts of wages and employment in other industries, and to call attention to the interest of the rest of the community in the issue of the negotiations. It is not at all clear that the people in an industry are always the best people to settle the wage problems of an industry; they are usually ignorant, and often careless, of conditions in every industry except their own, and need outside assistance to supplement their ignorance.

The necessity of co-ordinating wage settlements in different industries has led to more than one attempt to provide for it. It was hoped that the Industrial Court by its awards would influence agreements and so co-ordinate different industries; but resort to it has not been extensive or regular enough. The National Industrial Conference in 1919 had the same need in mind in proposing a joint standing national industrial council.* It may, however, be doubted whether a large body, with a changing membership of busy employers and trade-union officials, who can give only a fraction of their time to its business, would do what is wanted. The only body with the knowledge, the expert personnel and the experience required, is the Industrial Relations Division of the Ministry of Labour, which developed out of the Chief Industrial Commissioner's department of the Board of Trade. The protests against Government interference with wage and other industrial negotiations is justified, so far as it is directed against the intermittent intervention of Ministers. Ministers are not continuously engaged in such negotiations, and are not likely to be conscious of the full economic reactions of their decisions; on the other hand, they are continuously engaged in party politics, and may be influenced in their decisions by purely political considerations. Intervention by them is, therefore, an entirely different thing from the regular, expert, and professional work of permanent officials, who are engaged in this work all the time. That these should be present, even if only in a consultative capacity,

* A proposal revived by the Mond Conference.

is desirable in all important negotiations. Their advice would be welcomed and would acquire even more authority, if the department which undertakes this work could be given the independence of a public commission. Some such status is necessary to divest it of the appearance of subordination to a party-political Minister, and is no more than is due to the quasi-judicial duties that fall to it.

Another need that might be met by an increase in the independent conciliatory activities of the Ministry of Labour (or other permanent public authority) is the provision to disputants of impartial statistical information. Nothing is more futile than to argue about ascertainable facts instead of ascertaining them; yet nothing is more common in industrial negotiations. Each side proffers its own set of facts, and each side contradicts the other side. Something has been done by the liberal and scientific policy of the pottery, wire industry, and other Councils; but they have in the main confined themselves to the statistics of their own industries, when it is desirable also to have at the Council's disposal the facts as to wage-rates, movement of prices, and profits in comparable industries. Much has been done also by isolated Royal Commissions and Courts of Enquiry; but disconnected and intermittent investigations of this sort are very wasteful, involving as they do a fresh start with a new set of investigators in every enquiry, and they cannot command the authority that might be attained by the reports of a body that is continuously engaged in performing this service for all industries. The various Government departments possess information about overseas trade, foreign competition, wage-rates at home and abroad, the state and trend of employment, the movement of prices, all of which is relevant to the problem of settling wages; if it were put before the parties to wage negotiations by an independent public authority, as a matter of routine in such negotiations, it could not fail to influence, and probably abbreviate, their course.

The other need—an even more important though less obvious need—to which it is necessary to refer, is the diffusion of economic responsibility. The irresponsibility, or defective sense of economic facts, which was an inconvenience

before the war, has become a danger since. The scale of industrial disputes has so expanded, the country's economic situation is so much more critical, that recovery from the present depression may be postponed indefinitely, if industry is to be stopped on an inadequate consideration of the facts or a careless estimate of the ultimate cost of the dispute. The Samuel Commission made what is probably the most exhaustive and scientific investigation of the situation of an industry that has ever been made on the occasion of a dispute, yet apparently its report had not the slightest influence with the disputants. The so-called General Strike, in the opinion and intention of the strikers, was purely and solely a movement to defend the working-class against a threatened attack on its standard of life; yet the loss and dislocation of even a successful strike could have no other effect than to reduce the capacity of the country to maintain the existing standard.

Yet it would be surprising, if a comprehension of the secondary and more important effects of an industrial stoppage were common. The whole trend of industrial development is to restrict the manual worker more and more to a set task for a set wage; it would be surprising, if he spontaneously displayed that constant appreciation of the commercial and financial situation, which the needs of post-war industry calls for. The chief problem facing industry, therefore, is to make explicit and conscious the implicit partnership of wage-earner and employer, and so to check the divergence of view which arises every time a change of wages is called for by a change in commercial conditions. The Whitley Committee obviously had this need in mind, but it can hardly be met by the general discussion of a few representatives on an Industrial Council. For that reason perhaps the most significant work that is being done in the field of industrial relations is the experiments that are being made in associating workpeople with the financial fortunes of a firm, in ways that will compel them to consider and realise the general economic conditions that determine the firm's success or failure.

In my opening lecture* I drew a distinction between two

* *Cf.* pp. 4-6.

elements in the conflict of interests of which the strike is a symptom, the conflict over the distribution of the product of industry and the conflict arising from the subordination of the wage-earners to the management. It is convenient to consider these two elements separately, but they are nevertheless elements in the same conflict of interests, and ultimately merge. Wages depend upon efficiency in production, and efficiency is unattainable in large-scale industry without discipline. Yet discipline is impossible among free men unless it is accepted by them. The managers of industry, therefore, have somehow to satisfy their workers that the discipline they impose is necessary and the wages they pay as much as can reasonably be expected; they can hope to satisfy them in the long run only by admitting them to some experience of the problems of management and the difficulties of conducting industry—in other words, by devising means of making their partnership in the industry a reality.

VIII

GOVERNMENT INTERVENTION IN TRADE DISPUTES*

Mr. Chairman: I must begin my lecture with an apology and an explanation. Since your secretary gave me the title of my lecture and I accepted his invitation to lecture to it, I have unexpectedly been called on to spend six months out of England. I have been forced, therefore, to confine myself mainly to one aspect of State Labour Policy, in the study of which I have for many years been interested—and in the conduct of which you, sir, have for many years played the principal part—the aspect, namely, of Government intervention in industrial disputes. My object is to elucidate the principle on which State Policy in this field seems to have been based in this country in the past, to discuss the soundness of this principle in the light of recent experience, and to examine the administrative requirements necessary to give effect to a policy based on this principle. Briefly, my thesis is that the State in England has consistently avoided the fixing of the value of labour, in the form of rates of wages, by Act of Parliament or Administrative Order, leaving it to be settled by bargaining between the buyers and sellers of labour; that any departure from this policy has led to serious trouble; and that an effective Labour Policy can and must be based on this principle.

State Labour Policy can conveniently be considered under three heads: (1) policy in regard to industrial disputes; (2) regulation of industrial conditions; (3) public provision for wage-earners' needs in supplement of wages. I shall be concerned mainly with the first of these. Government

* A lecture delivered before the Institute of Public Administration, under the title "Administrative Aspects of State Labour Policy," on March 25, 1926, with Sir H. J. Wilson, K.C.B., in the chair. Reprinted by permission from *Public Administration*, the journal of the Institute.

intervention in industrial disputes is a recent development. In the nineteenth century it was not generally thought that Government had any responsibility in the matter. Organised provision for Government intervention dates, practically, only from 1896; and the change in public opinion has gone even further than the change in legislation. To-day, very unreasonably, public opinion tends to hold Government responsible in any failure to keep industrial peace. Statutory provision for Government intervention has been tentative and limited. The Conciliation and Arbitration Act of 1896 empowered the Board of Trade to enquire into the causes and circumstances of a difference between employers and workpeople, to endeavour to bring the parties together, to appoint a conciliator on the application of either party, or an arbitrator on the joint application of both parties. The Industrial Courts Act of 1919 added so much of the war-time experiments in Government intervention as was considered applicable to peace conditions; but did not extend materially, except in one respect, the Ministry of Labour's powers. It established a central permanent arbitration court of high standing to which differences could be referred by agreement; but the Minister was debarred from referring to arbitration a difference in a trade in which there existed any machinery for the settlement of differences, until the resources of that machinery had been exhausted. Both Acts were based on the assumption that wages and conditions would normally be settled by spontaneous bargaining between the parties to the wage-contract. Government policy, therefore, could be confined to assisting collective bargaining by conciliation and supplementing it by the provision of facilities for arbitration. Consistent with this reliance on, and encouragement of, collective bargaining was the legalisation of trade-union action by the Acts of 1871, 1876, and 1906, and the insertion of the Fair Wages Clause in public contracts. The Industrial Courts Act introduced a novel principle in Part II., to which reference is made below.

In the present century a more direct and far-reaching intervention in the settlement of wages has been undertaken by the Trade Boards Act of 1909 and 1918, the Miners'

Minimum Wage Act of 1912, and the Corn Production and Agricultural Wages Acts of 1917-24. Again, however, the State has avoided the direct fixing of wage-rates*—*i.e.*, by Act of Parliament or Administrative Order—the Acts providing in each case only for the fixing of a minimum, which the State would enforce, but leaving the actual fixing always to a joint body representative of the parties to the wage-contract.

Thus, the State Policy may be said to have been to encourage, assist, supplement, and, if necessary, compel collective bargaining, but always to avoid the responsibility of directly settling the value of any kind of labour by Act of Parliament or departmental action.

Turning to the second of our three heads—regulation of industrial conditions—we find the same principle observed. Sir William Beveridge has summarised the change in the wage contract in the nineteenth century as a change from an unconditioned to a conditioned contract. At the beginning of that century the State attached no (or few) conditions to the sale and purchase of labour; at the end of the century it attached a complicated network of conditions, the observance of which was compulsory in any employment of labour. It is unnecessary here to discuss in detail all the regulations, under the various heads of age, sex, laws, hygiene, methods of remuneration, and safety, imposed by the Factories, Mines and Shops Act. For our present purpose it is sufficient to note that they keep clear of any attempt to settle the value of any kind of labour. The conditions they impose are common rules, subject to which bargaining about wages and conditions is still free. Of course, the imposition of such conditions may raise the cost of employing labour, and, if not compensated for by an increase in efficiency, may reduce the funds available for wages; this factor of cost, moreover, has always to be taken into consideration in legislating on new conditions. But any effect on wages is incidental and accidental; the purpose of this legislation is to impose con-

* Except in the Corn Production Act of 1917, where a national minimum of 25s. was prescribed; but (*a*) this was in war-time, and (*b*) the wage was supposed to be the correlative of the guaranteed price of corn.

ditions that a consensus of opinion regards as socially necessary; and the result is, not to abolish bargaining about the price of labour, but only to eliminate a limited number of possibilities from the bargain.

I included the establishment of Statutory Wage Boards under my first head of Labour Policy; it might equally well have been included under the second. The Trade Boards Acts seek to impose a new common rule or regulation on the industries to which they apply, just as the Factory Acts do —viz., a uniform minimum rate of wages; but, while the content of the Factory Act rules is settled by the Home Office and Parliament, the settling of the content of the Trade Board Orders is primarily and mainly a matter for the Trade Board, which is a body representative of the employers and workpeople in the trade, with only a small minority of " appointed " members, who have not the right to propose a rate.

My third head—provision supplementary to wages—may seem to depart from the principle of leaving wages to be settled by employers and wage-earners. If the State subsidy to Health and Unemployment Insurance ever increased to such an extent that it formed a substantial proportion of wages, the State would have introduced a new principle; and, small and diminishing as that subsidy is, it does represent a new element, of growing importance, in the wage-earner's income, the element of authoritarian distribution. But the actual fixing of wage-rates is affected only to the extent that wages take a different form. Instead of the wage-earner getting three pounds a week when he is in work and nothing when he is out of work or away sick, he now gets three pounds less two shillings and ninepence when he is in work, and an allowance, substantial by comparison with the wages of unskilled labour, when he is out of work or sick. In the aggregate, if we leave out of account the State subsidy, he probably gets just about the same on one system as he would on the other; but this aggregate is differently distributed over his working-life. The aggregate is still determined by the relations of supply and demand, modified by organisation and other bargaining advantages.

We may, therefore, sum up the country's State Labour

Policy in the past somewhat as follows: The State imposes on industry such conditions as public opinion is convinced are socially necessary. Parliament, with the advice of the Government department that will have to administer the legislation, decides what public opinion demands (or will stand), and how effect shall be given to its demands. Among other things Parliament has interpreted public opinion as demanding that there shall be minimum rates of wages in certain trades in which the wage-earners have been unable to establish such minima unaided; but what the minima are to be Parliament has left to the representatives of the trade. Similarly Parliament has taken the view that the Government should do everything possible to prevent, and when it cannot prevent, to terminate trade disputes; but it has not taken the view that it, or any Department on whom it delegates its authority, should take the fixing of rates and conditions out of the field of bargaining and settle them for industry. In a word, the State regulates the general conditions under which industry shall be carried on, constantly extending its network of regulations as the consensus of opinion in the community on the necessity of new conditions extends; but it always stops short of the valuation of any kind of labour, because to undertake the responsibility of that would involve it in the *direction* as well as the *regulation* of industry.

This policy appears to be based on a sound grasp of the limitations under which any State policy operates in a democracy. The constitutional basis of all State activity in this country is the Rule of Law; every act of the executive must be authorised by some statute, and all administration must be carried on under the authority of Ministers, who will be responsible for it in Parliament. Now statutes, that can be administered, can be drafted and passed, only if there is a general agreement in the community, that the main lines and object of the statute are desirable; in other words, only if there is general agreement on some principle or principles which the statute embodies. Similarly the responsibility of the executive assumes agreement on principles. The way that a Minister discharges his responsibility, and justifies the actions of his department, is by seeking to show that

they accord with some accepted principle of public policy, or conduce to some social end which the community and Parliament have approved. Thus, as soon as the community reached some sort of agreement that the employment of children in mines was bad, or that women ought not to work in factories at night, or that wage-earners should be compensated for accidents at work, it became possible to embody this agreement in laws, and to impose these principles upon industry by administering these laws. And the Departments charged with this administration could justify their activity to Parliament by showing that it was directed to ends that Parliament had approved. I do not say that either the drafting of the legislation or the enforcement of it when passed is easy; it is always difficult to devise means of imposing a new regulation in such a way as to cause a minimum of dislocation, and to devise methods of administration that will ensure the legislation's being effective. But the agreement on principle makes the legislation possible and the administration practicable. The public regulation of industrial conditions and the public provision of services and benefits supplementary to wages represent so much public agreement on social aims, and the scope of each can be extended just so fast as, and no faster than, similar general agreement on conditions and social needs can be presumed.

When we come to the question of wage-rates, no such agreement is to be found. I am aware that general acceptance is claimed for such alleged principles as that a living wage should be the first charge on industry; but for the purposes of legislation, and still more of administration, something more definite than the question-begging phrase "living wage" is needed. There is agreement, no doubt, that 10s. a week is not a living wage (though many of the British workman's industrial competitors live on less), and equally that a wage of 100s. a week does not call for Government support or intervention. But decisions in wage policy do not turn on extremes of this sort, but on slight modifications on an infinity of existing rates; on such questions, for example, as the choice between $7\frac{3}{4}$d. and 8d. an hour, on which public opinion gives no guidance. The

suggestion has been made that the difficulty could be overcome by remitting to a special Commission the task of defining the national minimum wage; a Bill was introduced in Parliament in 1919 embodying this proposal. It is a well-established and useful practice in English public life, when faced with an insoluble problem of principle, to appoint a committee; but this proposal was asking too much of any committee. Any figure, that would not dislocate industry, and cause more suffering than its enforcement would relieve, would excite widespread opposition; because most people's idea of the minimum on which life is possible is something a little above the average of existing rates. In Australia the minimum on which civilised life for a family is possible was found by a special Commission in 1920 to be £5 17s. 6d.; in South Africa, by the Cost of Living Committee in 1925, £4; in England, by Mr. Seebohm Rowntree for 1914, £1 15s. 3d. The reason is that once we depart from the standard of bare subsistence (which is sustained with remarkable physical efficiency on the Rand Mines on 10d. a day) we base our minimum on customary expenditure; this merely reflects existing earnings, so that the standards we are invited to take to the judgment of existing wages are really derived from them. The task of a Commission charged to declare a national minimum wage would, therefore, be to find the highest minimum that would allow industry to continue to employ the existing number of workers; and the complexity and divergent standards of existing industry would make it necessary to fix the national minimum so low that few would benefit. The piecemeal application of pressure to low-paid trades by Trade Boards is a much surer, and administratively a much easier and more certain, method of attaining the same end.

It is curious how reluctant the public are to face the fact that it is not agreed on any absolute standards of remuneration. The public discussion of every wage dispute is conducted by both parties on the assumption that the standard of justice in wage matters on which they base their claims is the standard universally accepted; when one would have thought it obvious, that if any universally accepted standard existed at all, there could be no dispute, since wage differ-

ences would be settled in courts of law. And authorities, who might have been expected to show a more intelligent understanding of their problem, show the same blindness. Thus the Cave Committee on Trade Boards, instead of commending the Trade Board Acts for their practical wisdom in leaving the Boards free to take into consideration any and every factor that can affect wages, criticised them for affording the Boards no guidance as to the basis on which they should frame their minimum. Yet the Cave Committee itself, when it came to formulate its own recommendations, was unable to give the Boards any guidance. Public opinion on this matter is, indeed, confused, and no general agreement exists. The public sympathises with the claims of the lower-paid workers and of classes which have found their rates of wages unexpectedly reduced; at the same time it recognises that it is no kindness to fix rates of wages above the level set by an industry's capacity to pay wages and still employ its labour. The Trade Boards Acts give effect to such agreement as can be presumed, by requiring uniformity of rates from competing employers, and the settlement of those rates by a representative joint body. The Acts would not be improved by the insertion of misleading "guides," such as the references to "living wage" and "reasonable wage," that figure in minimum wage legislation in other countries.

At the beginning of this paper I referred to a change in public opinion in the present century, as a result of which it had come to be regarded as the duty of the Government of the day to prevent trade disputes, or at any rate to prevent their issuing in stoppages. I said also that this expectation was unreasonable. It will be seen now why I took this view. The Government cannot prevent stoppages, unless it can provide an alternative method of ascertaining a wage that will stand. It can do this only if it can apply to the dispute some principle that both parties accept—or set up a judicial authority which can apply such principles; and it is just because no such agreed principles exist that disputes arise. Neither employers nor trade unions will forego the right to stop industry, because neither is confident that in the last resort it will get its due without the threat of stoppage; yet the Government is expected to prevent stoppages without

making them illegal, and is blamed if the parties to a dispute in an important industry persist in their disagreement and stop the industry. However, the change of opinion has taken place; and Government, even if the conditions do not exist which would enable them to take over the business of fixing wages and fix them by authority, must still find some means of preventing, or reducing the extent of, strikes and lock-outs. It is here that the most difficult administrative problems arise; but it is not the case that State policy must be merely opportunist or negative. Government can and does, without taking the responsibility for fixing wages, do a great deal to determine the course of wage settlements.

In the first place, the Industrial Relations division of the Ministry of Labour does a great deal in the way of pure conciliation. Cases are not unknown in which, for personal or other non-essential reasons, the parties to disputes persist in a difference, when the real ground of the difference has been cut away. The intervention of an impartial and official third party will often effect a settlement, by enabling the principals to the dispute to save their face. Again, an experienced conciliator can suggest compromises, which may not have occurred to the parties to a dispute. The mere prestige of an official conciliator will often dispose a couple of pugnacious organisations to take a reasonable view of their differences; while the intervention of the Government, by giving publicity to a dispute, will sometimes check the action of an unscrupulous principal, who is exploiting a temporary bargaining advantage to impose upon his opponent an economically bad case. A parallel can be drawn between the position and duties of the Minister and officials engaged in this work of industrial conciliation and those of the Foreign Office. In both cases the aim is the maintenance of peace, without the sacrifice of any vital interest, by the methods of diplomacy. In both cases the danger to peace arises from a conflict of interests which cannot be settled by the ordinary methods of State compulsion, because there is no common will which the State can apply; hence persuasion, backed by a threat of force which is not likely to be applied, has to be used, instead of the direct compulsion which is possible when there is a common will

for the State to enforce by legislation. The industrial diplomatist is entitled to the same consideration from the critics of his achievements and failures as his brother of the Foreign Office; and in his field, as in the wider field of foreign policy, the public must be prepared at times for failure.

There is, however, more scope for constructive policy in the field of industrial conciliation than in that of international diplomacy; for, while in the latter case it would be hard to formulate any principle on the basis of which the country as a whole desires peace to be maintained, in the field of industry there is a principle on which a consistent policy can be based. " Wages in any occupation," says Professor Pigou, " are fair when, allowance being made for differences in the steadiness of the demand for labour in different industries, ' they are about on a level with the payment made for tasks in other trades which are of equal difficulty and disagreeableness, which require equally rare natural abilities and an equally expensive training.' " This view would not command universal support; the claims of the lower-paid classes, based on a growing egalitarian sentiment, and the vested interests of higher-paid classes, who have entrenched themselves by effective organisation in their superior position, would alike interfere with its general acceptance. It gives no guidance on the question of the right relation of wages to any given grade of skill—a relation that is constantly changing in industry as a whole. It is not a principle, therefore, that would serve to guide a tribunal with compulsory powers, or enable Parliament or a department to regulate wages by authority. Yet it does represent a common idea of " fairness "; and a policy of throwing the weight of Government influence on the side of wage-changes that tend to bring this uniformity of pay about, and against changes that depart from it, will command wider support than any other. If, therefore, Governments are to be expected to intervene more and more in wage disputes, and it is impracticable to settle disputes by prescribing rates that have to be accepted by the parties willy-nilly, the best and only policy open to them is to use their influence to secure uniformity of pay for equivalent work by every means in their

power, short of relieving employers and employed of the final responsibility for agreeing on wage-rates.

This tendency also, it seems to me, is implicit in the practice of the British Government. The support of collective bargaining is the support of the trade-union principle of equal pay for equal work within each trade. The institution, under the Trade Boards and Agricultural Wages Acts, of compulsory collective bargaining must have the effect of eliminating inequalities of bargaining strength among the different groups of workers competing for the national dividend, and so must tend to the establishment of uniform pay for equivalent work. It is, moreover, an acceptable policy, not only because it is the policy most likely, if it succeeds, to bring about peace and content in the ranks of wage-earners, but also because it tends to bring about the most productive application of the country's labour resources. If employers are forced to pay the same rate for the same grade of labour, however employed, they will be encouraged to employ every grade on those branches of production for which demand is greatest and consequently the highest price is offered; on the other hand, if they can meet a falling-off in the demand for any product—compared with other products (a general falling off in demand due to cyclical trade depression is another question)—by securing their labour at a lower rate than the average rate for that grade, they have no inducement to divert activities to products for which there is a more intense demand.

Having analysed at such tedious length the aims of State Labour Policy, I have not the time that it deserves for the consideration of the administrative implications of this policy. But in any case I have not the information or experience required for adequate consideration of them.

The regulative aspect offers fewest problems, because this country has the longest experience of State regulation of industrial conditions, and has done most to devise a technique of regulation. Careful drafting of detailed regulations after consultation with trade representatives, and adequate inspection by a specialised inspectorate, are the chief requirements. In the future it is possible that considerable use may be made of the efforts of the Industrial Fatigue Research

Board and similar bodies to establish *optimum* conditions by laboratory experiment or other methods taken over from pure scientific research.

The element of supplementary provision similarly involves no new departure in administrative practice. The organisation of insurance by the State is much like any other industrial insurance, except that the system of compulsory contributions enormously reduces the cost of administration. The organisation, being established for one kind of insurance, can easily be extended to other kinds. The existing distribution of the administrative tasks involved in working-class insurance between the State, trade unions, approved societies, industrial insurance companies, and general insurance companies can be understood only in the light of its historical growth; it is not explicable, or justifiable, by any principle of logic or economy.

It is in relation to the third aspect of Labour Policy, the assistance which Government can give to the peaceful negotiation of wages and conditions of employment, that the problem of administrative organisation is most difficult.

The aim of policy, I have suggested, is to assist the peaceful settlement of differences, but not to impair the ultimate responsibility of employers and employed for settling their differences; and the only principle available as a guide in this administrative assistance is the principle that in the long run the interests of content, economy, and therefore peace, are most likely to be secured by a system of wage relations that gives approximately equal pay for equivalent work. One additional point must be made to bring out the difficulties of the administrative problem involved. This equality of pay for equivalent work, though a result which competition is constantly tending to bring about, is very far from being realised in existing wage-rates. Great inequalities exist between different industries and different localities, and these inequalities cannot be suddenly eliminated. However " unfair " a rate of wages may be, if it has stood for a long time, employment will be adjusted to it and selling prices will be adjusted to it. Any sudden change, therefore, is likely to have dislocating effects on employment that are as undesirable as the inequalities themselves, and change must

be a gradual process. The same is true of change in the relations of rates of pay for different grades of labour. The lessening of the gap between the earnings of skilled and unskilled workers generally since 1914 is a social gain; but it has been and still is a serious cause of industrial unsettlement. The administrative problem, therefore, is to devise an organisation that can pursue a consistent policy, in a field in which the ultimate responsibility and the final decisions lie with someone else, with little aid in the form of compulsory powers given by Act of Parliament, and with the condition that undue pressure in applying the policy will defeat its ends. In attempting to indicate the kind of organisation called for I am, of course, as in all this paper, merely analysing and commenting on the organisation and practice which experience, not theory, has created in the department charged with this aspect of Labour Policy, the Ministry of Labour.

The organisation must, it seems to me, combine unified direction with decentralised administration. It will be convenient to take the latter aspect first. The administration must be decentralised, both because contact has to be maintained with a large variety of industries and a large number of industrial centres, and because successful conciliation is usually dependent on an early, though informal, approach to the parties, when the dispute is in its infancy. It would be difficult for a centralised staff to acquire the personal knowledge that comes from regular contact in the case of the great localised industries. The growth of national amalgamations in the trade-union world and the national organisation of employers is bringing more and more negotiations to London; but the industrial conciliation department will always need some representation in the provinces, since it is in the provinces that the movements leading to national negotiations usually have their origin. Similarly, while an exceptional personality may acquire equal authority in a number of industries, a permanent organisation cannot safely be based on exceptional personalities, and it will normally be necessary to have conciliation officials, who make themselves specialists in particular industrial groups. After all, England is the provinces; London is only an excrescence.

No success, however, is likely to attend Government intervention unless it is conducted on the lines of some consistent policy; and a consistent policy, in a field where action is so intermittent and diversified, is impossible without unified direction. The first administrative requirement, therefore, of a successful policy is that the whole of the Government's activities in relation to wages should be concentrated in the one department that specialises in them, the Ministry of Labour. This is a hard saying. It must seem a political impossibility, however desirable on economic grounds, to prevent disputes in such industries as coal-mining and railways from reaching Parliament and being handled by the Prime Minister. Yet a Government that is not prepared to give effect to its policy through the unifying agency of a single specialised department will find that, even on the lowest party-political grounds, it would have done better not to intervene at all. There are two reasons for this.

In the first place, an elected Parliament and a political leader are not in a position to give the balanced consideration to every aspect of a wage dispute that is necessary if the settlement of it is not to unsettle wages in other industries. They will always be tempted to pay undue attention to the immediate evils of a stoppage and neglect the more lasting, though less obvious, evils of upsetting the relation of wages to trade and employment and of unsettling wages in general —or of hampering and delaying the resettlement that is necessary after such an upheaval as the war. They may even be tempted to shift the responsibility for a wage-rate from the employer and the consumer to the taxpayer, flattering themselves that such an arrangement will be a temporary expedient, as easy to terminate as it is to initiate. Even if the politicians could be relied on to take a long, and not a short, view of the interest at stake, it is difficult for the Government to make itself responsible for a wage-rate, since it will have to justify its action by formulating some principle, which will then be used to compel it to take a similar responsibility for other rates. A little experience will then suffice to prove that wages cannot be fixed by authority unless prices are fixed also; so that the Government will find itself launched on a programme of State direc-

tion of industry in detail, which it never intended and has not the organisation to carry out.

In the second place, conciliation and arbitration are tasks for specialists. The most brilliant amateur must lack experience, and that almost instinctive consciousness of the reaction of one settlement upon others which experience gives. If Industrial Peace is our object, and Industrial Peace depends on a constant progress towards uniformity of pay for equivalent work, then the influence of Government can be safely applied only if it is applied either by or on the advice of non-political experts. The mere complexity of the wage problem should be sufficient to remind us that industrial negotiations are a matter for specialists; we shall never attain the ideal of securing that the system of wage-rates as a whole is taken into consideration every time any particular wage-rate is modified, if negotiations over wages are to be directed at one time by the Minister of Labour, at another by the President of the Board of Trade, at another by the Minister of Transport, at another by the President of the Board of Agriculture, at another by the First Lord of the Admiralty, and, whenever the coal mines are in question, by the Prime Minister in person. Wages, like prices, constitute an organic system; a change at any one point will have reactions throughout the system. The administrative organisation for dealing with wages, therefore, should be unified, in order that these reactions may be studied and allowed for.

Assuming that unified direction of policy is accepted, there is much to be said for a composite organisation like that provided by the association of an independent Industrial Court with the administrative Department of Labour. Contact with disputes will rest with the Ministry of Labour, until the parties desire something in the nature of an award, when the executive department will hand them on to the arbitration tribunal. All wage-decisions for which the Government is asked to take any sort of responsibility, including disputes with its own employees, should be referred to the Industrial Court, or to arbitrators working in association and sympathy with it. The proposal of the Cave Committee that Trade Board recommendations should be

submitted to the Industrial Court by the Minister of Labour for its observations before being embodied in an Order seems to be sound, for the same reason that unified handling of other wage-disputes is desirable. The independent action of *ad hoc* Courts of Enquiry set up under Part II. of the Industrial Courts Act seems to me, on the other hand, unfortunate in its results. If such courts could be relied on to confine themselves to findings on fact, they might serve their purpose of giving public opinion the information it requires, and so conduce to a settlement; but in practice they tend almost inevitably to find upon the issues of the dispute, and to make reports that are indistinguishable from Arbitration Awards. Such reports will not necessarily be consistent with the awards and recommendations either of other Courts of Enquiry or of the Industrial Court and Ministry of Labour. I cannot believe, *e.g.*, that the Industrial Court would ever have awarded the wages and conditions recommended by the Shaw Court of Enquiry in 1920, if only because the Industrial Court would have foreseen the reaction of those wages upon the settlement of Railway Wages concluded only six months earlier. *Ad hoc* courts and Royal Commissions *may* have beneficial results, but there is no assurance that they will. Inquiry into the general facts of wages and employment is part of the ordinary work of the Intelligence Division of the Ministry of Labour; it would be much better, and more economical, to entrust specific and particular enquiries to this division of the Ministry of Labour, who may, if they need them, call in the assistance of such experts as are put on *ad hoc* Courts and Commissions.

For another reason I am inclined to stress the importance of the enquiry work of the Ministry. The Ministry's officials influence the settlement of a large number of differences, which never reach either the Industrial Court or 10, Downing Street. It is desirable, we have suggested, that this influence should be directed to correcting existing anomalies and preventing new anomalies, judging anomalies by our principle of uniform pay for equivalent work. An important aid in exerting this influence is the presentation to the parties to a dispute of comparative statistical material, which will compel them in considering their own difference to have some

regard to the situation in other trades. The *Labour Gazette* is, of course, available; but not every one who ought to reads the *Labour Gazette*, and the *Gazette* publishes only summaries of a much larger mass of information which is in the possession of its producers. Impartial statistics not only of average rates and earnings but also of the dispersion about the average, for different dates, both in the trade in which the dispute has occurred, and in neighbouring and comparable trades, will not ensure a settlement, but will materially shorten negotiations and frequently aid a compromise. Trade Boards might receive more aid than they do in the way of pre-digested statistical surveys of their problems and comparative figures from other industries. Even more important is it that the Minister of Labour should have statutory power to investigate wages in trades to which he is considering extending the Trade Boards Acts. It is unreasonable that he should lack the power to investigate wages in a trade, when he is required by the Acts, in deciding whether to extend them to a trade, " to have regard to the rate of wages and other conditions prevailing."

I should like in conclusion, first, to refer briefly to certain cases in which the State has departed from the policy which I have outlined and ignored the administrative principles I have suggested; and, secondly, to discuss, even more briefly, certain substitutes for the existing administrative organisation that are currently urged.

During the war the State took the responsibility of fixing rates of wages by administrative Order. It took it reluctantly and almost inadvertently. The first result was that the area of its obligations was constantly widened. Having undertaken to fix wages for women on skilled men's work, the Government found itself compelled also to fix wages for women on other munitions work and for unskilled men employed under dilution schemes on skilled men's work. Having pledged itself to prevent the cutting of piece-rates, it found itself compelled to take powers to regulate the wages also of skilled time-workers, and, on using these powers, found itself unable to restrict their use to skilled time-workers, but compelled to apply them also to unskilled time-workers. In the exercise of all these growing powers, the

Government found it difficult to ensure a co-ordinated advance in wages as cost of living rose, and an economical adjustment of limited labour supplies to the urgent tasks of the war. Such control as it was able to effect was found to be dependent on the restriction of the free movement of labour by the Leaving Certificate provision of the Munitions Act; and when this was repealed the hold over wages was lost. Yet Government responsibility had been extended so far, that the ordinary control exercised by employers had been weakened, and in some cases eliminated. Employers merely put the additional cost due to wage advances on to the charges they made to the Government contracting departments. At the end of the war, therefore, the Government had become directly responsible for the rates of wages of half the workers in industry, and could prevent a continuous rise, that the finances of the country were unable to stand, only if it recovered the right to control the free movement of labour. So far as war experience goes, it is a fair inference that the correlative of direct wage-fixing by Government is some form of industrial conscription.

The other instance I will take, though I shall deal with it only in so far as it illustrates my point, is the relations of the Government with the coal-mining industry. Under the Coal Control the regulation of wages and prices was dictated much more by political than economic considerations, with the result that the industry was on an uneconomic basis when control ceased, and the 1921 stoppage was probably unavoidable to get it back to an economic basis. A Government subsidy was necessary to soften the transition. Again in 1925 the Government took the responsibility of bridging the gap between the employers' and the miners' claims for a period of nine months. It may have been the lesser of two evils; but it is not clear that it has done more than postpone, at an expense of £20,000,000, the greater of the two evils. Owners and miners have come no closer in the interval. The Royal Commission implies, if it does not state, that the subsidy was a mistake, and recommends that it be ended; yet wages, selling prices, and employment have all adjusted themselves to the subsidy, and it is hard to see how the recommendation to terminate it can possibly be carried out.

The special and separate treatment of the mining industry, designed solely to prevent the calamity of a stoppage, has not prevented two stoppages in 1920 and 1921, has involved the Government in two subsidies, has given no assurance against a lock-out, and, by obscuring the connection between the level of wages and the extent of employment, has retained and attracted into the industry a large number of workers, who but for this special treatment might have sought work elsewhere.

The alternative methods of administration that I wish to mention are the proposal that self-constituted Joint Industrial Councils, or other voluntary (non-statutory) bodies, should have the right to have their wage-determinations enforced, like Trade Board Wage Orders, on the whole of the trade in which they operate; and the proposal that a statutory National Industrial Council should be set up to supervise all State Labour Policy. Both seem to me unpractical and objectionable.

The proposal that compulsory powers should be given to non-statutory bodies (*i.e.*, bodies the constitution and scope of which are not determined in detail by statute or statutory order) is unnecessary, because everything that is aimed at by it can be secured by extending the Trade Boards system to trades that desire compulsory powers. The existing bodies are not precisely enough defined, and are not in the habit of drawing up their determinations in precise enough terms, to prevent a mass of litigation (over demarcation, scope of determinations, representative character of the determining body, etc.), which is prevented when an experienced department constitutes the Board, defines its scope, and formulates for it its determinations. Drafting obscurities, that do not matter when an agreement is voluntary and can be referred back for interpretation to the joint body that drew it up, become a nuisance when they have to be interpreted and enforced in a court of law. Moreover, the absence of the element of impartial appointed members would be a weakness to the labour side of the boards and, possibly, a danger to the consumer of the industry's product.

The project of a National Industrial Council had the backing of the National Industrial Conference of 1919; but that

conference was not in session long enough to realise all the difficulties of its proposal. Such a council would cut right across the doctrine of ministerial responsibility. In case of conflict, should the Minister of Labour accept the Council's view or Parliament's ? Even more difficult would be the relation of permanent officials to the Council; in case of conflict, should the Minister take the advice of the Council or of his Permanent Secretary ? I have no doubt myself. The impartiality and consistency of policy, which we have seen are the basis of all sound administrative activity, would be hard to secure from a large body, the personnel of which was constantly changing, and the members of which were vitally interested in every decision. If the Government intervenes in wage disputes at all, it will have to answer for its action in Parliament; it cannot therefore divide its responsibility with a body that is not represented in Parliament. It must have undivided control of its policy, since Parliament will never accept as justification for an action the plea that it was advised by the National Industrial Council. This contention has been disputed and the precedent of the Church Representative Council quoted; but there is this difference—the mass of the electorate and their representatives in Parliament are not interested in the internal affairs of the Church of England; they are violently interested in the affairs of industry.*

To sum up; a consistent and logical policy is implicit in the practice of English Governments, the policy of leaving wages, like other prices, to be settled by bargaining, and restricting State action, on the one hand, to imposing certain conditions, generally accepted as socially desirable, on employment, and on the other hand to encouraging, assisting, supplementing, and finally compelling collective bargaining. In avoiding the responsibility of actually fixing rates of wages, Governments have shown a wise discretion, since any rate fixed would have to be justified by reference to some accepted

* This was written before the controversy over the Revised Prayer Book; evidently I took too restricted a view of Parliament's interests. But if Parliament will not allow the Church to settle its own doctrinal questions, is it likely to allow an "Industrial Parliament" to take from it its functions in relation to industry ?

principle or standard of remuneration and no such accepted principles are available. At the same time Government can, without departing from this policy, meet the new demand made upon it for an active furtherance of industrial peace. It can do this by offering the services of specialised and experienced officers as conciliators, and by using its influence to ensure that in considering one wage-rate the relation of that rate to others will be considered, and that modifications will so far as possible be in the direction of bringing about uniformity of pay for equivalent work throughout industry. The latter, if not so generally accepted as to afford a basis for the judicial settlement of wage disputes, is at any rate defensible and conducive to peace and economy. Finally, this policy requires, as the essential condition of its success, the concentration of the Government's work in relation to wages in the hands of a single authority—the composite authority of the Industrial Court and Ministry of Labour. The most urgent reform is the establishment of this unified direction of policy.

IX

THE PLACE OF ARBITRATION IN INDUSTRIAL DISPUTES*

Two objections are commonly urged against any attempt to make arbitration in industrial disputes compulsory. The first is that there is no accepted body of principles which a court could apply to the settlement of particular disputes; the essence of judicial procedure is the application of accepted principles to particular cases. The second objection is that it is practicable neither to prevent a strike, when a large body of workers is determined to strike, nor to compel acceptance of an arbitrator's award, when a large body of workers believe the award to be unjust.

The first objection does not seem to be decisive. It is true that society is not agreed on what it means by a " fair wage " or a " just settlement," and that therefore a court that sets out to establish "fair " wages and " just conditions," could not expect unanimous support for its determinations. But industrial arbitration, so far as it is within the region of practical politics at present, has a much more modest aim than this. It is proposed merely as a substitute for the waste, inconvenience, and ill-feeling of a stoppage. The arbitrator's function, therefore, will be always that of making adjustments in, or modifications of, existing rates and conditions, which he will do in the light, not of general principles of justice in distribution, but of the particular circumstances of the particular case. The analogy with a court of law is false and misleading; a wage is a price and the courts do not settle prices, and have no body of accepted law for the regulation of prices, any more than they settle wages. The kind of disputes that courts of law can and do deal with are disputes about the fulfilments of contracts; the kind of disputes that are parallel

* A paper read at a Conference on Industrial Peace organised by the League of Nations Union, February 3, 1927.

with industrial disputes, on the other hand, are differences over the terms or content of contracts. The courts would have the same difficulty in settling the price of yarn as they would in settling spinners' wages. Industrial arbitration, then, has only a superficial resemblance to judicial procedure; essentially it is an expedient for finding economically a working compromise between two conflicting claims, neither of which is necessarily unjust or inequitable in itself.

Looked at in this way, compulsory arbitration is not open to the objections usually urged; it is, however, open to a different, a practical objection. A dispute arises because there is a conflict of interests; it persists because it is impossible to reconcile the conflicting interests. The arbitrator is forced, therefore, either to disappoint one of the conflicting interests by awarding in favour of the other, or, more usually, to disappoint both by awarding a compromise. Most disputes, whether they reach arbitration or not, are compromised, because the actual negotiators are usually sensible people, who see that concession is necessary. But the rank and file of the two sides, who take no part in the negotiations, are usually convinced of the absolute justice of their claims, and regard any concession as an injustice. The compromise, therefore, is in need of propaganda and defence, if it is to provide a real settlement. It is more likely to get this support if it is the outcome of direct negotiation, for which the leaders of the two sides are personally and directly responsible, than if it is an arbitrator's award. It is also on the whole likely to be intrinsically a better settlement, since most differences involve technical considerations on which the most clear-sighted and sympathetic outsider is likely to be imperfectly informed. Arbitration, therefore, if it tempts the leaders of industry to shirk the responsibility of settling their differences themselves, and to throw this responsibility on to an arbitrator, is likely to obstruct, rather than to further, industrial peace. If arbitration is to give us what we want from it, it must be voluntary, not compulsory, and the leaders of the two sides must assume the responsibility for carrying out the awards they have invoked.

The practical difficulties in the way of compulsory arbitra-

tion would be decisive if there were no other difficulties. In the whole record of disputes in this country more than half the number of persons involved in strikes and lock-outs, and far more than half the number of days lost, were in stoppages in the coal-mining industry. Does anyone imagine that it is possible to coerce the miners, if they are opposed to arbitration? The experience of the war was equally convincing. Strikes were illegal in certain munitions industries; outside this field they were discouraged; but they were not illegal. No difference can be discerned in the records of the two groups. Strikes were rather more numerous in the industries in which they were illegal; but this was natural, since these were the industries in which the greatest change took place and therefore the occasions of friction were most frequent. We may conclude, I think, that the feelings, which are excited by industrial differences and issue in stoppages, are too strong to make it practicable to prohibit their manifestation in the strike.

These feelings, like most strong and persistent popular feelings, have a basis in reason. If a wage is a price, and it seems irrational to strike over a price, it is the most important of all prices. If industry cannot stand an increase in costs when labour demands an advance, or cannot afford the existing level of costs when labour resists a reduction, it does not follow that the wage-claim is unreasonable; costs can be reduced by other means than reducing wages. And labour has not been convinced by past experience that it will get what industry can afford to pay, after reasonable improvements in methods of production have been introduced, if it does not occasionally put employers and society to the expense and dislocation of a stoppage. The strike and the lock-out are the sanction on which collective bargaining depends.

Again, therefore, we conclude that the submission of disputes to arbitration must be voluntary and not compulsory.

A disbelief in the possibility or desirability of compulsory arbitration is quite consistent, however, with a firm belief in the desirability of using arbitration, wherever possible, as a substitute for the stoppage. It is not necessary to emphasise this so soon after the close of the year 1926. There would seem to be four obvious cases in which the

refusal to submit a difference to arbitration is an unreasonable infliction of loss on the community.

The first is a difference over the interpretation of an accepted agreement or award. Most agreements and awards are obscure at some point or other, and give rise to differences of interpretation. The interpretation of a document is a different work from the drawing up of a document; for the drawing up, technical experience and special knowledge are needed; for the interpretation, a legal training. If, on interpretation, the document is shown not to have a meaning that it was intended to have, it should be competent for the party that finds its intention so thwarted to reopen the original negotiations. But the question of interpretation should be distinguished from that of revising the agreement; it is not a question that lends itself to rational settlement by strike or lock-out.

The second case develops out of the first. Where a general agreement or award is in force, there may be no question about its meaning and no question of its termination or revision; and yet new cases may constantly be arising for which it does not specifically provide. In that case it is necessary to apply the principles of the agreement or award by extension to the circumstances of the new case. If this cannot be done by agreement—or even if it can—it will often save time and temper to refer it to an arbitrator who, from dealing with a succession of cases of this sort, becomes expert. The setting of new piece prices, in an industry in which payment by results under collective agreement is the rule, is an obvious field for arbitration of this sort.

The third case raises rather different considerations. In the two previous cases we assumed a general agreement between the parties and differences only over its application. Now it may happen that the parties to a negotiation have reached no general agreement, and are unwilling to make any further concessions, but still have narrowed down their differences to a very narrow margin. To stop the industry in such a case would involve both sides in losses greater than the maximum additional concessions that an arbitrator would require of them. It would then be no shirking of responsibilities to invite an arbitrator to "split the difference."

Finally, there are still some industries in which feelings are not so inflamed as to make a rational calculation of losses impossible. Agreement by direct negotiation may fail, and each side may be convinced both of the justice of its claims and of its ability to exact them. Even then there is still room for an arbitrator who shall set himself, not to impose his *a priori* notions of what is a just wage, but merely to examine the situation and judge what would be the probable outcome, in terms of wages and conditions, of a stoppage. This judgment he can embody in his award. If he has experience he is not likely to be very far out, and the industry will have got the settlement—the ascertainment of which is the only object and justification of a stoppage—without the expense of a stoppage. Whatever may be urged against it, arbitration by consent is at any rate cheaper than stopping an industry.

We are left with a final question—how to secure the voluntary submission of disputes to arbitration; and here, like every other advocate of arbitration, I have to confess my helplessness. Compulsion we rule out, not only because it is impracticable, but because in the last resort free bargaining depends on the right to strike and lock out. We are left then with only the appeal to reason, the plea that on a rational calculation of advantages, in ninety-nine cases out of a hundred, the stoppage will cost far more than it can possibly secure. The difficulty is to secure a hearing for reason. The strike, which should be the type of pacific passive resistance, takes on the temper of war and invokes the methods of war propaganda. The aim of the leaders on both sides is to establish and maintain unity among their followers; to do this the easiest way is to work them up into a state of excitement; and of all passions the easiest to excite is the passion of hate. The opponents in the recent dispute in the mining industry spoke of each other in terms reminiscent of the war propaganda that in England was directed against Germany and in Germany against England; they did not think of each other as fellow-countrymen in a difficulty for which in the last resort neither was responsible. And it cannot be questioned that in the short run the appeal to hate is effective; unfortunately its effects cannot be

confined to the short run, and, by clouding reason and exacerbating feelings, it is in the long run as wasteful economically as it is deplorable morally.

Our difficulty then is to create an atmosphere in which the appeal to reason—a rational calculation of probable gains and losses, a sincere attempt to understand the other party's difficulties, a fair consideration of the advantages of an impartial judgment by a disinterested outsider—is easy and likely to be heard. In spite of last year's unhappy experience there is no reason to despair of attaining this. Sir William Mackenzie* has reminded us of the facilities which the Government has offered for such an appeal, and of the extensive use that is made of them. Mr. Pugh* has shown that arbitration and conciliatory methods have a long history behind them, a history that represents the gradual gains of reason at the expense of prejudice and passion. May I point out that, if we consider the number of stoppages, as distinct from the magnitude (and the number of disputes issuing in a stoppage is a better index of the ordinary practice and temper of industry than the failure of a few negotiators in a single industry, however large, to reach agreement), we have every reason for hope; for there were fewer stoppages last year than in any previous year in the present century. The magnitude of the mining dispute last year must not blind us to the relative improvement in the statistics of disputes outside mining in recent years.

There are two suggestions that I wish to put forward. The first is to support the plea for increased publicity of accounts and the provision of more adequate statistics of economic conditions by the Government. In particular I should like to see, first, a more frequent use of the powers of enquiry given by Part II. of the Industrial Courts Act, and the inclusion in all reports of such enquiries of a statistical analysis of the position of the industry; secondly, the ascertainment by an accountant of statistics of wages and trading profit in connection with enquiries and arbitrations, including not only average figures, which are of very little assistance to

* *Towards Industrial Peace*, being the Report of the Proceedings of a Conference organized by the League of Nations Union (P. S. King, 1927), Fifth Session, pp. 178 *et seq.*

an arbitrator, but the dispersion of wages and profits about the average; and thirdly, a more frequent and detailed wages census, which would give us at any time up-to-date and authoritative figures in all occupations, for purposes of comparison with wages in the industry in which a dispute occurs.

My second suggestion is that every important dispute should be followed by an official enquiry into its cost. What is needed after a dispute like those of the past year is a severely scientific "inquest" by an expert committee, drawn from the statistical departments of the Ministry of Labour and the Board of Trade. Of course, such an estimate could be no more than an estimate; but that does not mean that an estimate, sufficiently reliable to be useful, could not be made. The investigations should deal with the loss of production in the industry in which the dispute occurred, and the resulting loss in wages and profits and foreign trade; with the loss of trade, directly attributable to the stoppage, to allied and dependent industries; with the cost of relief to the Unions, the Poor Law and the Unemployment Insurance Fund; and with any other consequences of the dispute that were capable of measurement in monetary terms. Such an estimate of cost would bring home to the most embittered partisan what the consequences of his action had been. He might still approve his action, holding that the intangible gains more than offset the tangible loss; but he would be a little more predisposed in the next crisis to consider the possible loss; and if he himself were unaffected—and the attitude to economic facts of some partisans in industrial disputes on both sides often reminds me of Mr. Harold Skimpole—his colleagues and followers would be encouraged to criticise and check him. The economists of a century ago are criticised, because they attributed to men in their economic relations a habit of rational calculation which men did not show in practice; if anyone still holds the view that human conduct is rational, I can imagine no study so likely to disabuse him of that notion as the study of economics in the last twelve or thirteen years. But if it is unduly optimistic to regard man as rational, we can still regard him as capable of reason, and frame our policies to appeal to and strengthen this rational capacity.

X

WAGES THEORY AND THE MINIMUM WAGE*

I.—The Theory of Wages.

The economist who lectures in public is faced with a difficulty that the specialist in other studies escapes. He is expected to make the most complex of economic theories both intelligible and convincing, to persons who have made no study of economic science, but are possessed of some empirical knowledge of economic fact. If he seeks to guard himself against mis-statement by introducing all the qualifications that the complexity of his subject requires, his listeners complain that he is a pedant, who will not give a plain answer to a plain question; if, on the other hand, he simplifies his explanations for the sake of clearness, he is accused of ignoring obvious facts. The difference between Elementary and Advanced Economics, as commonly taught, might be expressed by saying that the former is simplified to the point of being intelligible but untrue, while the latter is true, but so full of qualifications as to be almost unintelligible. Undeterred by this double danger, I propose to attempt an elementary statement of the theory of wages, and then to insert the qualifications that are needed to bring out its bearing upon the problem of imposing minimum wage-rates upon industry by law or trade-union action.

Economic theory explains wages, in much the same way as it explains the prices of commodities, by reference to supply and demand. It is not to be inferred from this statement that the economist is unaware of the differences that distinguish labour from commodities; a large part of Economics is devoted to examining and insisting on these differences. They are particularly important on the side of supply. The seller of labour has to get rid of what he sells currently,

* A public lecture delivered in the London School of Economics on October 25, 1923.

or not at all; he cannot store up what he cannot sell, and is in the weak position of the seller of a perishable commodity. The kind of labour he has to offer is very largely determined by conditions over which he has no control, more particularly by the foresight of his parents in equipping him with a skill that would be needed—or the reverse; so that the adjustment of labour supplies to a changing demand is necessarily slow and imperfect. He has to deliver his labour himself, and, although he may be able and willing to move, he may have a family, some of whom are in employment, to tie him to his present place of residence; hence a demand for labour that he could satisfy may be of no use to him, since he cannot move. In modern industry he is usually compelled to sell to an employer who buys the services of many workers, and who could, if no organisation to prevent him existed, exploit to his own advantage the worker's need to sell his single unit of labour. In modern industry, again, the worker is not in as good a position to gauge the market importance of his work as the employer; he has a narrower economic range of view, less experience in commercial dealings.

These differences all tend to make the settlement of the price of labour in some way different from the pricing of commodities, but do not detract from the general principle that a wage is related to, and explained by, the supply of labour for which it is paid. The wage must be sufficient to call forth enough workers to meet the demand. Normally, and in the long run, this requires a rate high enough to remunerate exceptional skill or other qualities, and to compensate for special training. It must bear some relation to rates in other industries, which compete with it for labour, and ultimately to the population of working age, on which all industries depend for labour.*

On the other hand, wages depend equally on the demand for labour. They will rise or fall in any industry, as demand rises and falls and makes it necessary to attract or to divert elsewhere additional labour. And wages as a whole will vary

* *Cf.* Marshall, *Principles*, p. 549: "The tendency of economic freedom and enterprise is generally to equalise efficiency earnings in the same district. . . . Of course, this tendency is liable to be opposed by special customs and institutions, and, in some cases, by trade-union regulations."

with the productivity of industry as a whole, since the product is the sole source of payment for labour, and therefore the determinant of demand for labour.

The whole product of industry does not go in wages to labour, because there are other factors in production. Where enterprise is free, the organisation of production, and its direction to the wants that consumers express through the market, is undertaken by firms working for profits. The different functions that used to be combined in the private employer tend to be specialised and remunerated separately; some agency, however, has to estimate the contributions, which different factors of production make, and remunerate them accordingly. Now the different factors are always in practice combined; labour, capital, natural resources, management, all need one another. The competition between them, therefore, takes place only at the margin of employment; *some* labour, *some* capital, *some* supervisory staff will be needed in any organisation, the question is whether more labour, or more machinery and less labour, or less routine and more responsible labour, will pay the employer better. As Marshall puts it, "the alert business man is ever seeking for the most profitable application of his resources, and endeavouring to make use of each several agent of production up to that margin, or limit, at which he would gain by transferring a small part of his expenditure to some other agent . . . he is thus, so far as his influence goes, the medium through which the principle of substitution so adjusts the employment of each agent that, in its marginal application, its cost is proportional to the additional net product resulting from its use."*

As a result of this process by which labour is valued, certain relations between the supply of labour, wages, and the demand for labour (or employment) are formulated. Assuming no change in the demand for the product of a particular kind of labour and no change in the supply of the other co-operating factors of production, additional labour can be employed only at a lower rate. This is so, because the additional labour will be employed at less advantage—with less adequate equipment, less space, less choice of material,

* *Principles*, p. 515.

upon less urgent and important work. The marginal product of labour is less, and, in Marshall's words, "the wages of every class of labour tend to be equal to the net product due to the additional labour of the marginal labourer of that class."* This *Law of Marginal Productivity* serves also to explain the sharing out of the total product of industry between the factors of production. If labour is plentiful and capital scarce, the marginal productivity of labour will be low and wages correspondingly low; if capital increases disproportionately, the marginal productivity of labour will rise, and labour's "pull" upon the product of industry be strengthened.

Two cautions are necessary. In the first place, the "marginal labourer of any class" is not marginal in the sense of being the least efficient to be employed; he is marginal in the sense that the addition of him to the force makes it up to the number just worth employing. He is "a worker of normal efficiency whose additional output repays the employer with normal profits but not more";† the importance of this marginal labourer is that "it is the bare product of a unit of labour alone that we are seeking to distinguish from other elements in the general output of the industry, and that consists in the difference between what nine units of labour and all the capital can produce, and what ten units of labour and all the capital can produce."‡

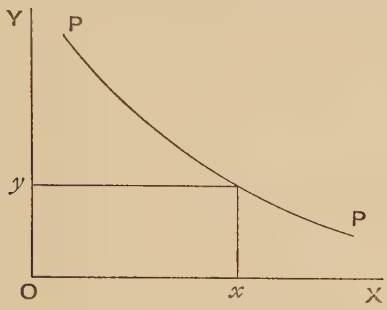
The second caution is directed against a misunderstanding of the object of the marginal productivity theory. It is not offered as a complete explanation of wages; its use is "that it throws into clear light the action of one of the causes that govern wages." Wages, interest, rent, all depend on the general relations of the supply of and demand for the things for which they are paid; but the correlation of wages with the law of diminishing productivity sums up the immediate connection between the supply of labour, the wages paid for it, and the demand for it or employment. In the diagram that follows, if the productivity of labour be measured along OY and the supply of labour along OX, then the

* *Principles*, p. 518.

† Marshall, *Principles*, p. 667.

‡ J. B. Clark, *Essentials of Economic Theory*, p. 138.

marginal productivity of labour will tend to fall as the supply of labour is increased, as indicated by PP, and for any supply of labour Ox the wage will be Oy. If it is greater than Oy, employment will contract until the marginal productivity covers it; if it is less, it will pay employers to expand employment, or, if the supply of labour cannot be increased, competition for labour will force the wage up.



Abstract as this theory may appear, it sums up in a succinct formula the explanation of the most obvious variations in wages. Where population is dense and capital and natural resources per head of population low, as in India, labour productivity will be low, because labour will be pushed into uses which in other countries would be performed by some power-driven appliance, and wages will be low. Where the opposite conditions prevail, as in North America or Australia, labour will be economised by an extensive use of labour-saving equipment, production per head will be high, and wages correspondingly high. After the stoppage in the British coal industry in 1921 the number of miners was reduced by a fifth, but the output per head so increased that the total output was the same as before the stoppage; that wages fell, instead of rising, was due to a contemporaneous fall in the value of the coal produced. Again, before the war, the weekly time-rates of skilled artisans in the building and engineering industries were usually about the same; since 1921 building rates have been much higher, but the divergence has recently been very much reduced. These changes have coincided, first, with an immense expansion in the number of engineering craftsmen and contraction in the

number of building artisans, and, more recently, with a reduction in the number of engineers and a rapid increase in the number of building workers.

II. Some Qualifications.

The theory we have thus briefly outlined is subject to many qualifications and explanations, and we have now to introduce such as are needed to show its bearing upon the problem of substituting an authoritative determination of wages for unregulated bargaining. The correlation of wage-rates with employment, which was the final result of our analysis, would seem to make the raising of wages by authority possible only at the risk of causing unemployment, and so to make it undesirable. A traditional prejudice against any interference by authority with wages in England may be attributed to the unfortunate experience of the old Poor Law, reinforced by the Wages Fund theory of the second quarter of the nineteenth century; the newer theory of marginal productivity has, however, been directed to the same political end.* The practice of regulating wages by authority has nevertheless spread, and in this country the industries that have been subjected to legal minimum wage

* *Cf., e.g.*, J. B. Clark, *Atlantic Monthly*, 1913, pp. 289-94, cited in *The Worker in Modern Society* by Douglas, Hitchcock, and Atkins, Chicago. "The passing of a law certainly cannot conjure into existence a fund of new wealth from which additional wages can be drawn. We can be sure, without further testing, that raising the price of goods will, in the absence of counteracting influences, reduce sales; and that raising the rate of wages will, of itself, and in the absence of any new demand for labour, lessen the number of workers employed . . . a forcible raising of the rate of wages for workers of the lowest grade will lessen the number employed. Some producers who can barely run their factories at present will drop out of the ranks. Some of the workers who produce barely enough to hold their place even under successful employers will drop out. . . . Even though the discharged workers could make themselves personally as competent as other members of the force, they could not be re-employed, since that would put an end to the scarcity of labour, and by mere increase of supply, reduce the value of the individual labourer to his employer. If the discharged workers were in a position to wait for ultimate changes, they might have their recompense for suffering in the interim; but asking them to rely on this is asking that they satisfy the hunger of the present with the bread of the future."

regulation show a greater rise of wages in the period since the Trade Boards (Minimum Wage) Act was passed than industry generally.

The first explanation that is necessary is that the theory is an analytical account of the general tendencies which determine wages, not a realistic description of the actual circumstances that a detailed study of wages would reveal. It is forced to abstract from the attendant mass of detail, in order to elicit clearly the general pattern about which these details cluster. Certain consequences follow. In the first place, the formula that wages will correspond with the marginal productivity of the wage-earner expresses a norm which may not at any moment be attained. In the long run employers cannot pay more, and wage-earners need not accept less. As we read those passages of almost lyrical enthusiasm in which the nineteenth century economist contemplates his hero, the *entrepreneur*, or those equally impressive passages in which this hero is revealed as the divinely appointed agent of the great Law of Substitution, we are inclined to overlook the imperfections in this agency. But many businesses are ill-organised and conducted on very inadequate cost accounts, with the result that wages may be paid in excess of marginal productivity in some cases and below it in others. The weaknesses, to which the wage-earner is subject in selling his labour, make it improbable that in all cases he will get his true worth on this theory. The coincidence of the actual level with the theoretically necessary level will, therefore, depend on the accuracy of the employer's accounting and the correction of the employee's inferiority of bargaining strength. Given a full understanding of the economic contribution of each class of labour, and given equality of bargaining strength, wages should correspond with marginal productivity.* But this equality of

* It is not clear that, as Marshall (*Principles*, p. 627) says, the solution of the problem of wages becomes indeterminate, when employers and employed are both organised. The theoretical relation between number of workers and marginal productivity will still determine the normal wage, to which the collective bargain will tend to approximate. If a certain figure is the wage at which all can be employed, it is as likely to be discovered by a process of collective discussion as by the unorganised action of a mass of individual employers and workpeople acting independently.

bargaining strength does not everywhere obtain, and, where it does not, the use of minimum wage machinery to force up wages to the figure that collective bargaining would have established, is a possibility. The first use of legal machinery, therefore, as of trade-union organisation, is to force employers to pay what they can.

In the second place, the general statement of the relation of wages to productivity abstracts from, and makes no allowance for, variations in the efficiency of employers. Other things being equal, the wage that can be paid depends on the marginal productivity of the wage-earner, which in turn depends on the proportions in which labour is combined with capital, natural resources, and other agents of production. But other things are not necessarily equal; and room must be made in a complete statement for the influence upon wages of the varying efficiency of employers. Productivity varies from firm to firm and from time to time independently of variations in the relations of labour to capital and in industrial technique. There is, therefore, always a possibility of increasing the productivity of labour by screwing up the less efficient employers to the level of the more efficient, or by assisting the latter to absorb the businesses of the former. The second purpose that a minimum wage law may serve is to impose upon less efficient employers in an industry the necessity, either of raising the efficiency of their productive organisation to the average level of the industry, or of giving way to others who can so raise it.*

* Examples of the influence of minimum wage regulation in improving organisation are given, *e.g.*, in the minutes of evidence taken before the Cave Committee upon Trade Boards, pp. 913-914. In one case it was discovered that the minimum earnings required by the law involved no raising of piece-rates, once the overloading of the engine and neglect of transmission belts and pulleys were corrected. The compulsion to pay for the worker's time resulted in a more economical method of working through the elimination of waiting and other forms of non-productive time. The application of a Trade Board was commonly followed by the introduction of "clocking on." The obligation to keep proper wage and time records, and to fix piece-rates on a known and definite basis, led many firms to use the resulting figures as a means of measuring efficiency and cost. Finally, there has been a big improvement in mechanical efficiency in the trades in which Trade Boards have been longest in operation. *Cf.* also D. Sells, *British Trade Board System.*

Similarly—and this is the third way in which the mere fixing of a legal minimum wage may raise wages—the wage reacts upon the efficiency of the wage-earner. The marginal productivity theory, being merely a variation on the pattern of general value theory, considers primarily only distribution between " factors " of production, and its chief purpose is to bring out the relations between forms of income and the movement of market prices;* but a wage, while it is the price paid for so much of a factor in production, is not to be identified with that price. A wage is the income of a labourer, and, without any variation in the price paid by the employer for a unit of labour, it may be greater or smaller, according as the labourer is able to supply more or less labour. As Marshall, whose view of the scope of economics was apparently wider than that of his disciples, points out," there was no need [in another connection] to raise the question whether the increase in work came from an increase in the number or in the efficiency of those in the group. . . . But the question is of vital importance to the members of that group."† Now minimum wage policies are concerned directly with wages in the sense of worker's income, and only indirectly with the value of units of labour. The fixing of a minimum wage, therefore, whether by legal action or trade-union pressure, leaves the employer the option of extracting more units of labour from each workman in return for the additional expenditure upon wages. The setting of a minimum price on the worker's *time* may be a stimulus to better organisation. It is a direct inference from the law of marginal productivity that, when workers are cheap, their time will tend to be wasted; when they are dear, it will be

* It is even suggested that economics should not attempt more than this. *Cf.* H. D. Henderson, *Supply and Demand*, p. 174: " The economist concentrates on the agents of production for the very good reason that it is only with respect to them that any clear and certain laws as to distribution can be laid down. Into distribution between individuals and classes there enter other and variable factors, governed by no fundamental economic law." *Cf.* S. J. Chapman, *Outlines of Political Economy*, p. 263: " the economics of distribution is concerned primarily not with *incomes*, but with the *earnings* of the several factors in production."

† *Principles*, p. 666.

economised. The additional *units of labour* secured may be remunerated at a lower rate than was paid before wages were raised, and yet wages per *worker* may be higher, because the worker renders better service. A legal minimum wage, therefore, may serve to establish a minimum standard of competence as a condition of employment at all, which the workpeople, with the employer's aid, can attain.

III.—Wages and Value of Product.

Wages, we have just had occasion to remember, are the wage-earner's income, although it may be convenient for some purposes to look at them merely as the price paid for the wage-earner's work. As such they consist of so much money, and, if there are no changes in the purchasing power of money, it is the amount of money he gets that determines the wage-earner's economic position. Now when we are considering the distribution of society's income as a whole between the different factors of production, we can ignore this money aspect of wages; what is important is the share of the goods and services produced by the industry of society that goes to labour. But when we are considering the difference in rates in different industries, the money aspect is of the first importance. In this sectional consideration of wages, the productivity of the labourer is of less importance than the value that the market attaches to his product, and the one may go down while the other is going up. Thus the productivity of English coal-miners, measured in tons per caput per annum, was falling from the beginning of the century to 1920, but wages were rising, the fall in output of tons being more than compensated for by the rise in value per ton. If average earnings as shown by the Wages Census be compared with average (value) output per head as shown by the Census of Production, a broad distinction is shown between industries in which men predominantly are employed, in which both wages and value of output are higher than the average for all industries, and industries in which women predominate, in which wages and value of output are lower than the average. The reason is not that women workers turn out fewer hanks of yarn, pieces of cloth, gross of

cigarettes, or other unit of quantity, than men do—the substitution of women for men on many forms of munitions production during the war was followed by an increase in output—but simply that the values of things produced by women's labour run lower than the values of things produced by men's labour. Women may be able to produce a smaller physical quantity than men in certain industries, where physique or long training are essential; but equally there are light occupations, calling for a monotonous accuracy, in which women would produce the greater physical quantity. It is important, then, to distinguish sharply between physical productivity of labour and value-product.

The relation between number of workers who can be employed and wage that can be paid, that we noticed, is the resultant of two distinct influences. Assuming no change in supplies of capital and other co-operating factors, an increase in the number of workers will involve a diminishing addition to the physical product of the industry, and for that reason tend to lower the wage that can be paid. Since it will, though at a diminishing rate, increase the supplies of the product of the industry on the market, it will also tend to reduce the value of a unit of output, if there is no simultaneous increase in demand. The curve of diminishing productivity, that we represented on the diagram on p. 217, will be steeper than either the curve of physical productivity or the curve representing the diminishing utility to consumers of the product of the industry, since it is the resultant of the two taken together. There may, however, be changes in demand, with the result that the physical productivity curve may be translated into a series of value-productivity curves, each corresponding with a different state of demand and a different resultant price for the product of the industry. Before we can understand the full implications of this, it is necessary to note another characteristic of the marginal productivity theory.

The theory is a *static* theory—that is to say, it sums up the relation between wages and employment that would be established, if, without other change, alternative quantitative relations between labour, capital, and the other factors in production were allowed to work out their full

effects. As such, it provides a clue to the understanding of wages at any moment, but it requires to be supplemented by a consideration of changes in all the conditions, which it assumes as constant, before a complete explanation can be reached. In other words, the *static* analysis must be corrected by a consideration of the *dynamic* elements in the problem.

Thus we have seen that the theory abstracts from improvements in industrial technique and organisation, although these are principal sources of increases in wages; it does so, because they take time, and because their influence can be allowed for subsequently. It abstracts from the reaction upon the efficiency of employer and of the employee, which the removal of the possibility of paying the previous low wages may have. Similarly, it leaves for separate and subsequent consideration, the influence of additions, not of labour by itself, but simultaneously of all the factors of production—which is, after all, the normal case—in increasing or decreasing the returns to all the factors together. The most important dynamic influence upon the relation of wages and employment is, however, the upward and downward movement of prices. The curve of productivity, when productivity is translated from physical volume to money value, is constantly moving up and down as a whole, as the value of the product rises or falls.

IV.—Trade-Union Wage Policy.

We are considering the relation between wages and employment in a single industry. We have seen that the two are mutually inter-dependent; assuming no other change, more can be employed at a lower rate, while a higher rate will be possible only by excluding from employment some who are at present employed. Why, we are forced to ask on observing the differences in wages in different occupations, do we get a correlation of low wages and extensive employment in some trades, high wages and restricted numbers in others? The coincidence of the wage with marginal productivity is found in both cases; why does the same law give such different social results?

This relation between wages and employment is a standing incentive to restrict entry to trades. If they can restrict numbers, leaving out of account the secondary effects upon the volume of the product of industry as a whole, a class of labour may secure a double gain, from increased marginal productivity as the proportion of labour to other factors declines, from increased marginal utility as the supply of the product of the industry, in relation to the demand for it, is reduced. It will always be possible that the gain to the class restricting its numbers will outweigh the share of the resulting loss to society that falls upon them. Restriction is the chief explanation of differences in wages; but not so much deliberate and conscious restriction, as the indirect restriction imposed by the cost of training, length of apprenticeship, and in general, the inequality of opportunity that follows necessarily from social inequality, and the indirect restriction imposed by trade-union action upon wages.

Let us look at the problem with which a well-organised trade union is faced in meeting a demand for a reduction in wages or framing a demand for an advance. Its problem is a dynamic, not a static, problem; whatever settlement is reached, the correlation of wages and employment will be maintained; the union's problem is, assuming the facts of demand, at what point on the productivity curve it will endeavour to fix wages. When there is a change in demand, and the whole curve falls, the union is in a dilemma; it has to choose between maintaining the present number of workers in employment by accepting a lower wage, and maintaining wages at the expense of causing some unemployment. On the whole the tendency is to maintain the rate even at the expense of unemployment. The strongest unions, strong enough to be sure of getting back anything they concede, as soon as improved conditions permit, will accept a reduction; they will even, as in the iron and steel trades, tie wages to selling prices, and accept an automatic variation in accordance with price changes; but the commoner practice is to resist any reduction, through the fear that a reduction, once conceded, will be difficult to recover.

The policy of unions, then, is to maintain wages at the

expense of unemployment when trade falls off, and to force them up when trade is good.* It is by this policy that they have been enabled to raise the wage standards of organised trades above those of unorganised trades. By fixing the rate, they automatically restrict the trade to the number that can be employed at that rate; unemployment in bad times and the forcing up of wages in good times tend to check any influx into the trade, so that there is always a close relation between the members dependent on it and the numbers who can be employed at the union rates. This would be an uneconomical, and even dangerous, policy, if industrial conditions were static, since it would involve loss of output through unemployment in bad times and loss of output through restriction of numbers in good times; but industrial conditions are not static. On the whole society tends to get richer; population grows and permits a more economical specialisation of labour, capital accumulates more rapidly than population grows, technical invention and improvements in organisation give a larger return to a given expenditure of capital and labour. In preferring unemployment to a reduction in wages, therefore, the unions expect only temporary unemployment, for the relief of which they devised unemployment insurance; they stand out against any reduction in wages, or against a reduction large enough to ensure the employment of all the persons in the trade, because they rely on the rising tide of wealth to float off those of their members whom their wage policy has stranded on the shoals of unemployment.

This policy explains the steady rise of wages in unionised occupations in the nineteenth century. That rise would, of course, have been impossible if the wealth of society had not increased; but the trade-union policy was the means by which their members secured their share in this increase.

* Not only in England. *Cf.* Hollander and Barnett, *Studies in American Trade Unionism*, p. 135. "From this summary of the machinists' policy with respect to wages during the decade 1893–1903, we see that it is their aim to raise the minimum rates as high as possible in prosperous times, and to suffer them in dull times to sink as little as possible, even though the men may have to work shorter hours in consequence of the rates being maintained."

It explains again why wages fluctuate less than prices; the trade unionist prefers to take his losses due to trade fluctuations in the form of unemployment rather than of wage reductions. It explains also the greater plasticity of wages in the more strongly organised industries, since only a strong union can make a concession in bad times without endangering the main object of unionism, the control of wage-rates. Wages under trade-union control are, in fact, a case of monopoly price. The characteristic of monopoly is, not that it can control demand, but that it can restrict production to the amount that, given the conditions of demand, will pay it best. Similarly the union can resist, by withholding its labour, the tendency to force down wage-rates in bad times to the level at which all can be employed; it can choose the rate at which labour shall be supplied, on condition that it is prepared to face the unemployment that a rate higher than the absorption rate will cause.

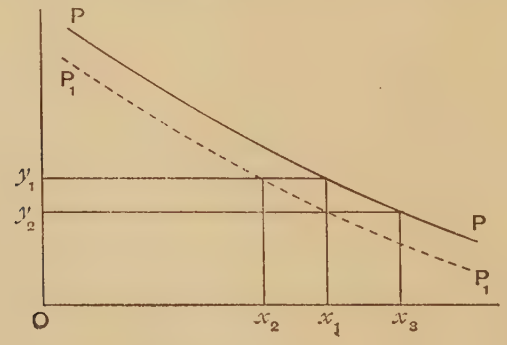
V.—The Origin of "Sweating."

Let us contrast with the reaction of an organised trade to fluctuations in trade prosperity the effects of the same fluctuations upon a completely unorganised trade. When demand falls off, wages will be reduced to the point at which the value of the marginal product of the worker again covers his or her wage; so far the difference is merely that the one trade meets depression by reducing wages, the other by reducing employment. But presently demand recovers. There are then two possibilities: either wage-rates may be restored, or even raised above the former level, and the same number be employed; or the reduced wage-rates be maintained, and additional workers be drawn in to meet the increased demand at that level of labour-costs. In the absence of organisation, the latter tends to be the alternative taken. Successive fluctuations will have the same effect, reducing wages in depression and expanding employment in boom, until the scale of the industry is large enough to satiate the demand of the poorest class of consumers, and wages are so low that, even with the aid of supplementary earnings by

other members of the family, poor relief and charity, they barely maintain the workers.*

Thus the unorganised trades tend to become "sweated" trades, because they are the unrestricted trades. Deliberate restriction of entry is the exception among unions; the effective and necessary restriction of numbers is secured by insisting on a certain minimum rate, to which in time the scale of the industry's production is adjusted. The "sweated" trades are unrestricted, because they expand on a basis of low wages, when, in the interest of the workers in them, the opportunity should be taken to force wages up rather than expand employment. Women's wages in general are lower than men's, because women are crowded into a restricted field, in which wages are depressed to the level at which a single woman can maintain herself, and prices and production adjusted to lower costs on that basis. A statutory minimum wage may, therefore, influence wages, quite consistently with the theory of wages we have outlined, in two ways. It may check the expansion of production upon a basis of low wages, which would otherwise take place

* As demand falls the (value) productivity curve will fall from PP to P_1P_1. In an organised trade it will be possible for wages to be maintained at Oy_1 and employment to contract to Ox_2; in an unorganised trade the tendency will be for wages to be reduced from Oy_1 to Oy_2, and employment to be maintained at Ox_1. When trade recovers and demand rises again to PP, in the organised trade employment will expand to Ox_1 again at Oy_1 wages; while in the unorganised trade, employment may also expand, at Oy_2 wages, to Ox_3. Successive trade fluctuations, in the absence of protection for wages, thus tend both to lower wages and to expand employment on the basis of the lowered wage.



as general trade conditions improved, and so prevent the development of an industry upon the basis of sweated labour costs; and by permitting expansion in response to a growth in demand to take place only upon a basis of higher wages, it may gradually divert a portion of the increase in society's wealth to the weakest classes of wage-earners.

Competition between trades or occupations for shares in the joint product of all industries is a more important influence in the distribution of wealth than competition between the factors of production. If the labour in a trade is well organised, the influence of this organisation will be transmitted through the employers to the prices of the industry's products, and so secure for the workers a larger share in society's income than other, less well-organised, workers of the same skill and exertion. The shares of the different occupations are constantly being modified. As the productiveness of industry is increased by invention, better organisation, and the accumulation of capital, three possibilities offer themselves: the additional wealth may be distributed in exactly the same proportions among the different occupations as the previously existing product; or it may be secured by the more strongly organised sections; or it may be diverted to the weaker and poorer sections, this diversion being effected either by an increase in wages, following on an increase in the prices of their product, or by a reduction in the prices of the things on which they spend their wages, with no corresponding reduction in their own prices and wages.

The social interest lies in realising the third of these possibilities; the tendency of existing competition, in the absence of State intervention, is to lead to the second. Effective *sectional* trade-union action, by forcing up wages, restricts employment in the organised sections, and so compels a number of the working population, disproportionate in relation to the demand for products of all kinds, to seek employment in unorganised sections, where their numbers force down their wages, and, with wages, the prices at which the products of their labour can be sold.* To prevent this

* It is possible that the high wages of the better-paid artisans of America are in part due to the customary exclusion of the large

unequal distribution of the addition to society's wealth, it is necessary to equalise the bargaining strength of the different sections that co-operate in its production; or, if not to equalise, for that would be impossible, at least to repair the weakness that prevents the poorest sections from pressing their claims. The introduction of minimum wage-rates in these sections, which are maintained when trade falls off and adjusted upwards when trade improves, will effect the necessary change. Only when the grosser inequalities of bargaining strength are eliminated, can "the tendency of economic freedom and enterprise . . . to equalise efficiency earnings" operate.

A rough equality in the power of different groups to maintain wage-rates, and either to resist reductions in the downward phase of the trade cycle or to recover them in the upward phase, is desirable also in the interest of the most economical application of a country's resources. If some wages are controlled, by unions or otherwise, while others are uncontrolled, not only will wages for a given level of skill and exertion diverge in the two groups, but those industries will tend to expand in which wages can be forced down, and those to contract in which wage-rates are maintained. There is no reason to suppose that the former are the industries in which the country's economic effort will be most effective; rather the reverse. And, even if the country has advantages in the low-wage industries, the alternating depression of wages and expansion of employment, which trade fluctuations bring, will lead to an investment of enterprise and capital in these industries disproportionate to the advantages they offer. Further, if they are carried on for export, the beneficiaries of the low wages paid will be the consumers in other countries, and the low wages themselves will operate as a bounty on export. Thus a comparative advantage in international trade will be a social disadvantage in the domestic economy.

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coloured and immigrant sections of the population from the trades they follow, as certainly the high wages of white skilled labour in South Africa are due to and dependent on the low wages of the great mass of native wage-earners. Cf. *Report of Economic and Wage Commission* (1925). *Union of South Africa*, §§ 135-150.

VI.—Administrative Inferences.

We saw that the trade union in framing its wage policy was always faced with a dilemma, since it could not control both wages and employment. If we turn now to the practical administration of a minimum wage policy, we are met by the same difficulty. The wage-fixing authority cannot base its determinations on abstract ethical principles external to industry, without running the risk of precipitating into unemployment a large number of the people it seeks to protect. A continuous compromise, between the risk of causing unemployment by undue haste in forcing up wages and the risk of tolerating wages lower than could be paid, has to be worked out. In working out such a policy the experience of collective bargaining in organised trades is there to follow. The trade unions have never based their demands upon any absolute objective standard of justice, but have taken into consideration the commercial and technical conditions of the industry in which they are negotiating and the rates being paid in other industries, and reached the best compromise they could.

In this country minimum wage legislation has followed this precedent. The Trade Boards (Minimum Wage) Acts state no minimum to be enforced and attempt no definition of such a minimum. They are confined to the establishment of Trade Boards, representative of employers and employed in the trades regulated with the addition of a neutral element, on whom the statutory duty is laid of fixing minimum rates of wages, which the State will enforce. These Trade Boards are essentially a device for securing collective bargaining in trades in which it had not developed spontaneously or effectively. On them and through them the discussion of wage changes can be carried on, with reference to the capacity of the industry, the needs of the workers, and the standards of comparable work in other trades, and rates settled for all, which do not measure merely the extremity of need of the most helpless worker or the most hard-driven employer. It is as organs of compulsory collective bargaining that the Trade Boards must be regarded, if either their past achievements or their future possibilities are to be

comprehended. They can, of course, serve as substitutes for effective trade unionism, only if the Government enforce their determinations; if the Government department responsible reduces the inspectorate, until it cannot check evasions, and hesitates to prosecute when evasions are discovered, it is in effect assuming to itself the right to suspend the Act of Parliament under which the Boards operate, and to prevent them from having the effect they are intended to have.

The critics of Trade Boards seem to be unable to appreciate this function and their admirable adaptation to it. Thus the Cave Committee, which investigated the working of the extended Trade Board system in 1922, while reporting that the Boards had succeeded in "abolishing the grosser forms of underpayment and regularising wages conditions," "afforded protection to the good employer" against unscrupulous competition which had prevented improvement in conditions in the past, "acted as a stimulus to improvement in working methods," and improved industrial relations, nevertheless criticised the Act on the ground that 'no guidance is given as to the basis upon which a minimum is to be fixed," and objected to the extension of Trade Board activities from "the prevention of 'sweating'" to "the public regulation of wages throughout the industries concerned." They pointed out also, as defects of the Trade Board system, divergent rates for similar work, the difficulties arising from the imperfect demarcation of different trades and from indirect competition, and the delay in adjusting rates to changing economic conditions.

Had they realised that Trade Boards are essentially organs of collective bargaining, they could hardly have made these criticisms. The difficulty of defining the area over which a certain rate shall be paid arises from the nature of industry itself, in which there are no sharp lines of demarcation into non-competing groups, and has nothing to do with Trade Boards as such. The divergence of rates for similar work is a difficulty likely to arise in all wage-fixing, whether by Trade Boards or private negotiations, because there is no central authority to take cognisance of all wages. Delays in adjusting rates to changed conditions are no greater in Trade Board industries than in others; the normal term

for which wages were fixed in most organised industries before the war was three or five years. The extension of Trade Board activity from trades in which the rate of wages was " exceptionally low in comparison with that in other employments " to trades in which the Minister of Labour was " of opinion that no adequate machinery exists for the effective regulation of wages throughout the trade " was the deliberate act of Parliament, which may presumably be taken to express the intention of Parliament, and was due to the experience of the working of the Boards under the earlier Act. The original Boards were established experimentally in a group of " sweated " trades. It happened that they covered also by definition certain branches in which wages were by no means exceptionally low and in which there was a nucleus of trade-union organisation. Thus they demonstrated the possibilities of a statutory organisation for trades in which, without conditions being such as to shock the public conscience, no satisfactory arrangements for establishing uniform rates and adjusting them to changing conditions could be maintained by the workpeople. It was on the basis of this experience that the extension of the system took place.

To complain that the Acts give no guidance, in the form of some principle by which the minimum wage should be fixed, was to overlook the practical wisdom that inspired them. What principle could have been laid down ? The Cave Committee itself, in spite of its complaints, while recommending that the Boards be restricted to fixing minima, gave no guidance as to the principles on which such minima should be fixed. Such principles would be difficult to define, because there is not agreement as to what constitutes a reasonable minimum,* and difficult to enforce,

* *Cf.* The Report of the *Economic and Wage Commission* (1925) (Government Printer, Cape Times Office, Cape Town), paragraph 330. After citing the definitions by which Australian wage-fixing authorities are bound, the report comments: " ' Decency,' ' Comfort,' ' Reasonable Comfort,' ' Subsistence,' ' Domestic Obligations ' to which an ' average worker ' would be ordinarily subject; ' normal and reasonable needs of the average employee '; a ' fair ' amount taking into consideration the current wage and the ' evils existing under that wage '; phrases such as these are so many confessions

because a minimum which is not based on and continually adjusted to the changing circumstances of industry, must dislocate industry. The objections to State regulation of wages would be quite justified, if State regulation meant the imposition upon industry by an outside authority of some standard based on supposed political or ethical needs to the exclusion of economic considerations. State regulation has proved quite practicable only because the fixing of rates has been relegated, either to judicial bodies or to representatives of the industries regulated, and departmental action confined to enforcing their determinations. "We are faced," says the Cave Report (§ 52), "with the prospect of the detailed recognition and enforcement by the State of the many and varied assessments of the value of labour in all its grades which have hitherto been subject to the interplay of economic and social forces." The prospect need appal us, only if the Government seeks to supersede "the interplay of economic and social forces." Trade Boards merely interpret them, and formulate their outcome in determinations, that pay the same regard to commercial conditions as do the determinations of non-statutory boards.

The system of standard rates and agreements built up by collective bargaining is the basis of industrial relations in this country. Before the war there were large exceptions to its scope, in which wages were low, without any benefit to employers, because the trades themselves, and not merely the wage-earners in them, were compelled by the absence of any organisation to accept inadequate prices. The extension of the Trade Boards Act, and the parallel creation of statutory Wages Boards in agriculture, has closed up these gaps; with the result, not that wages are equalised, but that the influence in depressing wages, exerted by the defencelessness of these occupations against pressure from

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that it is impossible to say in general terms what a 'fair wage' or a 'reasonable wage' is. Every one of them is capable of, and in discussions on wages receives, a variety of interpretations; as soon as the attempt is made to reduce them to pounds, shillings and pence, it is found that the controversy over what constitutes a 'fair' wage has simply been transformed into a controversy over what constitutes 'decency' or 'comfort' or 'reasonable needs.'"

the better organised trades, who are their customers, has been lessened. The correlation of wage-rates and employment in particular trades and in industry as a whole still holds good, and a trade that sets its rates too high, in relation to the number of persons who are to be employed, will have to face unemployment; but the increase in wealth, which the accumulation of capital and invention normally bring, if it is resumed, will no longer be absorbed by trades that have restricted the numbers employed in this way. The formerly unorganised trades have been put now into a position to assert their claim also, by maintaining wages through the depression and forcing them up when employment recovers.

The common idea that economic theory proves Minimum Wage legislation to be impracticable, so far as it has any valid basis at all, is due to neglect of the dynamic elements in the problem by which static relations are constantly being modified. It is true that *at any moment* there is a relation between wage-rates and employment such that, if rates were raised, employment must be reduced; but it does not follow that wage-rates cannot, or should not, therefore, be raised. The relation between wage-rates and employment is never the same in *successive periods*. In the absence of war, as society grows richer, the tendency is for it to be possible to employ more persons at a given rate, or the same number at a higher rate. A temporary reduction in employment—though the Cave Committee produced no evidence, except the prejudiced statements of interested opponents, that employment in Trade Board industries was any worse than in any other industry—may be worth facing, if it is necessary in order to establish a rate of wages approximating to the rates for equivalent work in other industries, in the assurance that it need only be temporary. The fixing of minimum rates is only the instrument; the object of the policy, of which it is the instrument, is the equalisation of bargaining strength among all sections of wage-earners in the community, and the diversion of any increase, that the growth of wealth makes possible in the payment of labour, to the sections that need it most.

XI

THE AUTHORITARIAN ELEMENT IN DISTRIBUTION*

I

In no department of economic policy was the victory of the principles of *laissez-faire* so complete as in that concerned with the distribution of wealth. Before the eighteenth century the right and the expediency of Government interference were hardly questioned; in the nineteenth century not only the expediency, but the morality of any attempt on the part of Governments to determine the distribution of wealth came to be rejected with equal unanimity. The valuation of services, like that of commodities, was left to be determined by the relations of supply and demand in a free market; each was entitled to what he could get, competition being relied on to secure that few or none would get much more or much less than the value of their services to society. Even when trade unionism developed and imposed some restrictions on competition in the sale of labour, the terms of sale were still left to be settled by a private and voluntary, if collective, bargain, without intervention by Government, in accordance with the prevailing theory that the most economical and effective adjustment of production to wants would be attained, if Government left individuals to settle their own economic relations.

The principles of *laissez-faire* are no longer popular. In the field of distribution, however, there is this to be said for them, that they relieve Government of the awkward task of formulating rules in accordance with which services ought to be valued, or wealth ought to be distributed. In a community which avails itself of the productive advantages of

* Read before Section F of the British Association at Oxford, August, 1926, and published in part in the *Economic Journal* of March, 1927.

specialisation the problem of valuation is central. Every producer produces for someone else's consumption, and no producer makes a complete thing without the co-operation of others; somehow or other, therefore, a value has to be set on every product, and a valuation made of every producer's services in production. Under *laissez-faire* the buyer pays what he thinks the thing is worth to him, and the value of each producer's service follows from the value which consumers set on the product of his efforts. Once authority interferes with this spontaneous process of valuation it becomes necessary to find some regulative principle, some absolute standard of values, in accordance with which authority can direct production and reward producers. If there were substantial agreement on the relative importance of the different wants to which production might be directed, it would be possible (though not easy) to direct production authoritatively in accordance with a priority scale, as production in the metal and chemical industries was directed during the war. Again, if there were substantial agreement on the relative importance of different kinds of work, or on the principles that should govern the distribution of wealth, it would be possible to regulate distribution by authority, as pay was regulated in the army—though not in munitions work—during the war. But the extent of agreement on the objects of production is very limited; and there is still less agreement on the principles that should govern the enjoyment of wealth. The average income in this country for a family of five is about £350; those with less probably consider themselves ill-used, but few people with more do not consider themselves entitled to the excess. This lack of agreement is the real reason why the production and distribution of wealth has, in the main, been left to private arrangement between individuals, the State intervening only to secure the supply of certain services, on the essential character of which there is substantial agreement, and to protect individuals from an exploitation of economic weakness, to which unregulated private contract would leave them open. Production follows the index of market prices, and the proceeds of industry are distributed among the claimants on such terms as they agree upon among themselves.

The attitude adopted by Parliament in England to the crucial problem of fixing wages is significant in this relation. Consistently Parliament has refused to take the responsibility, or to place on Government departments the responsibility, of fixing wage-rates. It has given its approval to the principle of collective bargaining, providing—rather reluctantly—a statutory basis for trade-union action and assisting and supplementing collective bargaining by the offer of facilities for conciliation and arbitration. It accepts the results of collective bargaining by including the Fair Wages Clause in all public contracts, and follows the standards set by collective bargaining in the remuneration of its own employees. It has even in recent years made collective bargaining compulsory, in employments in which it has not developed spontaneously, by the establishment of Trade Boards and Agricultural Wage Boards. But approval and support of the practice of collective bargaining gives no guidance as to the actual rates that form the content of the bargain; except in the abnormal circumstances of the war, Parliament has not actually fixed the wage to be paid in any employment by Act or Executive Order.

This abstention is significant, since it confirms the conclusion to which we came a moment ago, that the community is not agreed on any principles that should govern the valuation of services or the distribution of wealth. If a Government fixes a wage, it must be prepared to justify its action in Parliament; it can justify it only by reference to some principle of justice or expediency which Parliament accepts; and these principles are still to seek. Moreover, the experience of war-time control of wages, abnormal as the conditions were, was sufficient to show that it is almost impossible to fix one set of wages by Act of Parliament or Departmental Order, without being forced to fix other wages; to fix wages without fixing prices; and to fix prices without controlling supplies and production. Even with the standards of priority given by the needs of the war, the problem of wage control proved insoluble; without such standards, it was useless to attempt any direct valuation by Government of goods and services, and a policy of *laissez-faire* was unavoidable.

In the present century public opinion has changed; *laissez-faire* is discredited, any *a priori* objection to State interference with distribution, or with any other problem of economic organisation, has gone. It might have been expected, therefore, that there would have been a corresponding change of policy, and that Government would actively participate in the fixing of wages and prices, the regulation of profits, and the distribution of wealth generally. There has been a change, but it has not taken the lines of a reversal of *laissez-faire*. It is true that usury laws have been revived; but the new law has no effect, and is not intended to have any effect, on interest and profits in general. Rent Restriction Acts are in force; but they are admittedly an exceptional measure to deal with a war-induced emergency, which it is expected will be temporary. A temporary Profiteering Act was passed as one of the measures needed to ease the transition from war to peace; but again it was a temporary measure, the chief significance of which was that it demonstrated the difficulty in practice of defining a "fair" profit. Trade Boards are a more important innovation; but even these leave the actual fixing of wage-rates to representatives of the trade; they involve neither Parliament nor any Government department in the fixing of rates which Government enforces, and are therefore a device for compelling collective bargaining rather than for Government fixing of wages. The central problem of distribution—the determination of wages, salaries, interest and profits—is still left to private contract without Government interference. On a superficial view it might seem there has been no change in the present century; actually an unnoticed revolution has come about, the chief features and stages of which I wish to distinguish.

The determination of economic relations, and therefore of the distribution of wealth, by free private contracts between individuals, which is the essential element in *laissez-faire*, was not unqualified even when the principles of that policy commanded their greatest authority. Government did interfere in at least three ways: it regulated the form and conditions, if not the amount of wages; it provided public relief outside the system of commercial incomes; and it modified the actual

distribution of income by taxation. The necessity of interference under all these heads was generally recognised even in the middle of the nineteenth century; but the dominant public opinion was in favour of restricting it to the narrowest possible limits. Thus regulations such as the Truck Acts and the Particulars Clause of the Factory Act were directed, not to influencing the magnitude of wage-rates, but simply to ensuring that the worker got the full amount of any rate agreed on; it was not until 1909 that the State interfered even indirectly with the amount of wages. Similarly public relief was given in a form and under conditions that were designed to deter the poor from applying for it; and taxation was levied in accordance with the maxim that taxation should be for revenue only. These limits have gradually been relaxed; the regulation of wages has been extended from the conditions to the amount of the wage; public relief has increased and been diversified; taxation has reached amounts that were not dreamt of a generation ago, and its incidence has been altered in order to lessen the inequality of income, which resulted from a policy of *laissez-faire* in relation to the commercial distribution. Government participation, therefore, which was a negligible influence in the distribution of wealth fifty years ago, has become a considerable and very important influence to-day.

II

This change from Victorian *laissez-faire* to the present system of distribution, whatever name we like to give it, has been a continuous process, so gradual that its significance was hardly noticed until the war came and suddenly accentuated it. It is, however, I think, possible to date the turning-point in the transition. I should put it in the period 1906-1914; and I should relate the changes brought about in that period to the check to the rise in real wages that marked the preceding decade.

Sir Josiah Stamp has summarised the movement of wages and other incomes in the nineteenth century. Real incomes increased on an average fourfold; but the most significant change was a steady movement of the population from lower to higher income classes, which left the proportionate dis-

tribution of income between classes much the same. "The total nominal income has increased," he says, "much more than the total population—the increase has surged up through all the fixed classes, so that there is a smaller population in the ranks of the poorest, with a nominal income of, say, under £80 a year, and many more in the over £5,000 class, but the *slope* of distribution—*i.e.*, the relation between one section or class and another—has hardly altered." It would appear that wealth increased and the average condition of the wage-earning class improved at a greater rate during the period in which the country came nearest to a policy of complete *laissez-faire* in relation to the distribution of wealth than at any other time. Professor Bowley has made a more detailed examination of changes in the distribution of the national income in the forty-three years preceding the war. The price level was about the same in the two years 1880 and 1913, so that no corrections had to be made for this factor; the period was long enough to afford a useful comparison and yet not so long as to involve comparison between economic systems that had materially changed. The result of the comparison was to show that wages had increased at about the same rate as the average income of the community; that the proportions in which the national income was distributed between property and work, and between the three social classes into which it is convenient to divide the population for the purpose of studying the distribution of the national income, were unchanged; and that the chief change was in the numbers of persons in the income-tax-paying class and in the intermediate class of persons, whose incomes were below the income tax exemption limit, but were not wages in the ordinary sense. As Professor Bowley points out, the comparison gives a remarkable confirmation of the assumption upon which economic theory works, that the distribution of income is not accidental or arbitrary, but the result of fundamental tendencies in industry, which are not affected by slight changes of technique or law. The comparison confirms the conclusions drawn from Sir Josiah Stamp's study of the longer period.

When we examine the period 1880-1913 in more detail, however, we find that the rise in wages was not uniform or

continuous. Money wages, according to Mr. Wood and Professor Bowley's index-number, rose just 10 per cent. by 1895 and 22 per cent. between 1895 and 1913; but the period 1880-1895 was a period of falling prices, while prices rose from 1895 to 1913. If, therefore, real wages be taken as the index of the improvement in the economic condition of the wage-earning class, nearly the whole improvement was made by 1895; after which year the rise in money wages was sufficient to compensate for the increased cost of living, but little more. Moreover, a large part of the rise in the average level of money wages was due to the shift of the occupied population from low-paid occupations like agriculture to relatively well-paid occupations like coal-mining and engineering. The average of wage-*rates* did not rise as much as prices. The wage-earner who had not changed his occupation would feel, therefore, that his economic position was growing worse, while all the external and visible signs of industrial conditions pointed to a rapid increase of the country's wealth. With the industrial unrest and the revival and extension of trade unionism, which this check to the rise in real wages explains, I am not here concerned, except in so far as they, like the check to wages itself, strengthened the demand for social reform by political action, and created an atmosphere in which it was possible to carry novel social legislation; what I wish to stress is that the demand was intensified, and a favourable atmosphere created, in the first decade of this century. The share of the national wealth that reached the wage-earner in the form of wages no longer increased at a rate that satisfied him, and the way was open—in a democratic state—for a financial policy that would try to make things up to him in some other way—in a word, for a Limehouse policy, so called, no doubt, because it aimed at alleviating the conditions of life in places like Limehouse.

The change, I have suggested, took the form of a great extension and diversification of the three types of interference by Government with distribution that were admitted even by the strictest advocates of *laissez-faire*. It will be convenient to consider first the extension of Government regulation. The distinctive innovation was the extension of regulation

from conditions of work to wages; and not only to the form, but to the amount of wages. This was affected by the Trade Boards Act of 1909. Now we have seen that this innovation did not involve Parliament, Cabinet or any Central Department in the responsibility of actually fixing a rate. This responsibility was thrown on the representatives of the trade in each case, who, with a minority of Appointed Members, formed the Trade Boards; Government only promulgates and enforces the rates fixed. Essentially, therefore, the scheme is a scheme of compulsory collective bargaining, applied to trades in which collective bargaining had not arisen spontaneously or was ineffective. The amending Act of 1918 makes this explicit, by substituting for "exceptionally low" wages the condition that "no adequate machinery exists for the effective regulation of wages" as the differentia of the trades to which the Act is applicable.

If the Trade Boards scheme merely extends collective bargaining, without any direct imposition by Government of a rate or rates predetermined in accordance with some abstract principle, it might seem that I have exaggerated its significance. There is, however, no doubt that the institution of Trade Boards has been followed by a levelling up of wages in the trades covered towards (or even beyond) the level of wages in organised industries; and if this result has been achieved without the inclusion in the Acts of any question-begging references to "living" wages or "reasonable" wages, that is a tribute to the practical wisdom that drafted the Acts. My reasons for believing that the mere extension of compulsory collective bargaining to a trade in which wages are exceptionally low will tend to raise wages are three.

In the first place, in the absence of collective bargaining, the individual wage-earner is unlikely to secure even the wage that the conditions of the trade will permit the employer to pay; a Trade Board, therefore, by eliminating the possibility of an unscrupulous or hard-pressed employer's exploiting the individual weaknesses of his workpeople, and imposing the standard of the wages paid by the better employers on the whole trade, will tend to level all wages up to the limit

that the trade can bear, without any reduction in the volume of employment. In the second place, a trade in which wages are not settled by collective bargaining is likely to be at a disadvantage in competition with other trades in securing from the consumer, the final paymaster of all the industries, a good price for its products; a Trade Board, by redressing this inequality between industries, organises, as it were, the trade as a whole, and, by enabling it to secure a better price for its products, enables it to pay a better wage to its workers.

In the third place, the conditions that limit prices and wages are continually changing. The chief benefit which a trade union confers on its members is that it enables them to maintain wage-rates during a temporary depression and to force them up when demand recovers. Before the war society was getting richer; each year, therefore, it could pay a better price than the previous year for some of its products; in the absence of Trade Boards or some similar machinery, it would tend to pay this price to the organised industries, which, being organised, were in a position to extract it. Trade Boards put unorganised industries in a position of equality, or even of superiority, as compared with the organised industries, and so made it possible for them to press a claim for a share of this increase in society's wealth. I conclude that the mere extension of collective bargaining would tend to raise wages in the trades in which the extension was made.

By themselves, however, the Trade Boards could not have effected the improvement in the condition of the lowest-paid wage-earner that the last twelve years has seen. Two other factors have to be taken in conjunction with Trade Boards. The first is the war-time regulation of wages by the Ministry of Munitions, and the reaction of Government Wage Orders on the standard of wages established by voluntary collective bargaining; the second is the support given to wages by the post-war Unemployment Insurance scheme. During the war the Wages Orders of the Ministry of Munitions forced up the wages of women workers and unskilled men more rapidly probably than they would have risen but for this assistance; at the same time the advances in wages generally,

given by or in accordance with the awards of the Committee on Production, took the form of flat-rate advances, and so raised unskilled rates in a higher ratio than skilled rates. Government control of wages in war-time, therefore, operated in the same direction, that of raising rates in unorganised trades relatively to those in organised trades, as Trade Board control before and since the war. After the war Trade Boards were extended widely with the express object of supporting the wages of workers who had had the benefit of the war-time control; so that statutory regulation tended to preserve the advantages gained by the less skilled and lower-paid workers. Further, the advances in wages awarded by statutory Orders, whether under the Munitions of War Acts or the Trade Boards Acts, help to establish new standards of remuneration for unskilled and semi-skilled workers. The unions which cater for these classes—the extension of whose activities is an outstanding feature of recent trade-union history—are influenced by these new standards, and make correspondingly advanced demands on the employers with whom they negotiate. A higher relative standard of wages for unskilled and semi-skilled work generally has thus been established.

There was no difficulty in forcing up wages during the war and the post-war boom; the stability and permanence of the results achieved can be judged only at the end of a period of trade depression. Wage-rates and employment are correlatives; if a wage-rate is too high it will cause unemployment. The establishment of a new rate, therefore, whether by a trade-union, a Trade Board, or a Departmental Order, may involve a decrease in employment, and create a problem of temporary unemployment, even if the rate has anticipated only by a little the growing capacity of the industry to pay wages. Trade unions built up a system of unemployment insurance that enabled them to take this risk; it seems to me that Trade Boards in unorganised trades, and General Labour Unions with no unemployment benefits, or small and partial benefits, have been able to take the same risk only because the State has provided unemployment benefit for the workers whom their rates may displace. Wages rates are, after rents, the most sticky of all prices; we should expect

the relatively higher rates established by 1920 to come down slowly in any case; but it seems improbable that the unskilled worker's position would not merely have been maintained in the depression, but improved relatively to the skilled man's position, if unions and Trade Boards had not been able to rely on the national Unemployment Insurance scheme, and particularly the provision of Uncovenanted Benefit, to deal with any unemployment for which their rates were responsible. In effect uncovenanted unemployment benefit is the true minimum income established in industry by law.

The importance of this upgrading of the lower rates of wages in the last twelve or fourteen years is that it attacks poverty at its main point. In the analysis of the immediate causes of poverty, defined by reference to a "poverty line" of about 23s. for a family of five, which Professor Bowley made on the basis of his sample enquiry in 1913, about two-thirds of the persons living in poverty were in that condition, because the wage was too small to support the family on this minimum standard. It was an accident that this enquiry was made just at the time when the Trade Board system was emerging from its trial period, and a misfortune that no one thought of making it before 1913; it was worth many volumes of the evidence that the Poor Law Commission collected. But the coincidence of the two shows that the Trade Boards Act was one of the most significant reforms of its period; while the post-war inquiry by Professor Bowley, in the same places and on the same lines, shows that the reform, taken with the other co-operating factors we have discussed, has largely succeeded in its object.*

III

Just as Government regulation of economic contracts has been extended and diversified, so has the second modifying influence that we noticed been extended and diversified—the influence of Public Relief. The phrase "Public Relief" has acquired, perhaps, too narrow a connotation for my purpose; I wish to include any addition to the real income of the wage-earning class which is provided by Government

* Cf. *Has Poverty Diminished?* by A. L. Bowley and Margaret Hogg. P. S. King.

without charge or below cost. It is possible, I think, to take this into our consideration of the distribution of wealth without entering into the wider and more difficult questions of the basis of taxation and the proper limits of public expenditure. Comparing the present with an earlier period we find certain things, such as education for his children and provision for his own unemployment, provided by the State and forming part of the income that the wage-earner enjoys, which formerly he could enjoy only if he could pay for them out of his wage. We must allow for these benefits if we wish to measure the change in his position.

Only a rough measure is possible; but that will suffice. Exact measurement is not possible for two reasons. We can ascertain the total cost to the State of the free or subsidised social services that it provides; but we cannot identify the recipients with the wage-earning or any other income class. If, however, we take the convenient dividing line afforded by the pre-war income-tax-exemption limit, we find that practically all the wage-earners fell below it, and that they formed four-fifths of the whole number of persons with incomes below it. The greater part of the expenditure on public social services, therefore, can be regarded as an addition to the real income of the wage-earning class. In the second place, wage-earners contribute to national and local taxation, out of which the cost of the social services is met. The addition to their real income made by the social service is not, therefore, necessarily a net addition. We can, however, make a rough estimate of the change in the distribution of the burden of taxation between the different social classes. What we find is that taxation has become more progressive in the same period as the expenditure on social services has increased. We shall not be misled, therefore, if we take the increase in the aggregate expenditure on social services as in the main an addition to the real income of the class that draws wages, and the change in the ratio of that expenditure to the total wage-bill of the country as a rough measure of the benefit that the wage-earner has derived from direct control by the State of the distribution of wealth.

The amount of the expenditure on social services depends on what we include under that head. The so-called Drage Return of Public Social Services (Total Expenditure under certain Acts of Parliament) includes Insurance, War Pensions and Old Age Pensions, Education, Reformatory and Industrial Schools, Care of Inebriates, the Public Health Acts (so far as they relate to Hospitals, treatment of disease, and Maternity and Child Welfare), Housing, the Poor Law, Lunacy and Mental Deficiency. It relates to Great Britain only and shows expenditure for the years ending March 31, 1891, 1901, 1911, 1921, and the latest year for which figures are available. In the earliest year there are only seven heads of expenditure, and only Education, Poor Law relief, and Lunacy account for more than half a million; the total expenditure is £22,040,000. In 1901 the items are the same, but the total expenditure has grown to £36,000,000. Ten years later Old Age Pensions appear in the list and a small expenditure in relief of unemployment; the total has grown to £63,000,000. 1921 shows a big change. Health and Unemployment Insurance and War Pensions appear in the list, Housing has become a substantial amount, and the total has grown to £307,000,000. In the latest year, which does not, however, include Widows' Pensions and the concurrent extension of Old Age Pensions, the total is £332,000,000.

In order to get a post-war figure comparable with the earlier figures, it seems desirable to exclude War Pensions, which are an abnormal and transient charge,* and also the contributions made by employers and workpeople to the funds of the two insurance schemes. These adjustments bring down the figure for the latest year to just over £200,000,000. For the purpose of comparing the expenditure on social services with wages we want the expenditure for the United Kingdom as a whole over a rather longer period than the Drage Return gives. Making these adjustments, we find that expenditure in the United Kingdom increased from £16 millions in 1880 to £69 millions in 1910-11, and £80·6 millions in 1913-14. Professor Bowley has estimated the national wages aggregate in these three years at £465

* War Pensions should, however, be taken into account in comparing the condition of the poor before and after the war.

millions, £732 millions, and £770 millions. Thus the ratio of expenditure on social services to wages in the three years would be:

1880	16:465 =	3·4 per cent.
1911	69:732 =	9·4 per cent.
1913	80:770 =	10·4 per cent.

In 1924 I should guess the ratio at not less than one to eight.*

It is to be noted that it is not suggested that wages have actually been increased by this amount; wage-earners are not the only beneficiaries of these services. I take the ratio merely as a convenient index of the growing importance of State-provided income. The gross figures of expenditure would naturally increase with the growth of population, and, since 1895, with the rise in the general level of prices; but aggregate wages have also been influenced by these changes, so that the ratio between the two is the best index of the change we are trying to measure.

It is interesting to observe just when this change took place. The increase in expenditure has been continuous; but the rate of increase slackened in the 'nineties, increased in the first decade of this century, was increasing still more rapidly just before the war, and has continued since the war at the pace set then. In other words, it has followed, and to a large extent compensated for, the check to the rise in real wages that we noticed about the end of the last century. In part the increase has been due to a more generous—or lavish, according to the point of view—expenditure under old statutes, such as the Elementary Education Acts, Poor Law and Public Health Acts; partly to new legislation, of which Old Age Pensions, the Insurance Scheme and Housing are the chief examples. Moreover, while the biggest increase in expenditure has taken place since the war, the principles on which that expenditure should be based were settled before the war. Between 1906 and 1914 Parliament made the State responsible, not only, as we have seen, for the

* Taking wages at £1,600,000,000, the ratio would be 12·5 per cent. To the £200,000,000 should, however, be added Employers' contributions under the Insurance Acts, amounting to £35,000,000, if we wish to get the total addition to wages and other small incomes, which gives a ratio of 14·7 per cent.

regulation of wages by Trade Boards, but for Old Age Pensions, compulsory State-aided Health and Unemployment Insurance, the feeding and medical inspection and treatment of school-children, and the supply of working-class houses; post-war Governments have merely extended and elaborated schemes instituted then. The full significance of the social legislation of the pre-war decade escaped notice, because the war supervened to stop development, and to prevent people from realising, when development was resumed, that the post-war legislation was merely an extension, without any innovation of principle, of the pre-war schemes.

Of these pre-war schemes the most interesting for our purpose was the National Insurance Act. In the estimates of expenditure on social services given above only the State contribution was included. The greater part of the expenditure under the Act was, however, met by the contributions of employers and employed. Now the workers' contributions came out of their wages, out of the share of the national income, that is, which the workers obtain by the ordinary processes of commercial bargaining. It seems to me that the employers' contributions are essentially of the same character. It is true that they did not in the first instance come out of wages, since I know of no case where wages were reduced by the amount of the employer's contribution when the Acts first came into force; but the Insurance Act did nothing to increase the funds out of which employers can pay wages, except in so far as the contributions, being exacted simultaneously from all the employers in an industry, might encourage them to raise prices and so enable them, where demand was inelastic, to recover their expenditure from the consumer. Apart from this exceptional case the employers' contributions were a compulsory flat rate advance in wages, imposed by the State and then appropriated for the special object of providing insurance—an advance which would probably have been conceded in the ordinary way, though not so soon and not in the form of a flat rate, but for the Government's intervention. These advances caused little or no dislocation up till 1920, because trade on the whole was expanding all the time, and the

contributions were small. Since 1920 the effect has probably been different. A compulsory advance in wages, imposed without any consideration of the capacity of different industries to pay such an advance, is likely to cause some unemployment. When trade is expanding this effect will be small and transient; in a prolonged trade depression it may be an important influence retarding recovery. It may be doubted whether the year in which the country returned to the gold standard was the best time to choose for the last big extension of subsidised insurance, to Widows' Pensions and Old Age Pensions at sixty-five, desirable as these were in themselves.

The Insurance Acts, then, fall into a category intermediate between that of direct subsidy, like Old Age Pensions, and that of pure regulation, like our Trade Boards Act. Apart from the State subsidy their effect was to change the form, without altering the amount of wages. They ordained that the worker, instead of getting all his earnings in weekly wages, should get a part in the form of rights to income in sickness and unemployment, actuarially equivalent to the contributions which he and his employer and the State made to the insurance funds. Thus the Acts secured a better distribution of the wage-earner's income in time, reducing it when he was working, but insuring that it did not cease when he was unable to work. Wage-earners could have made similar provision for themselves, as some of them did through Friendly Societies and Trade Unions; but those who most needed this provision were least likely to make it. The State contribution and the compulsory character of the scheme made it possible to bring into it the lowest paid workers, and also secured provision in sickness and unemployment for better-paid workers, who had the means but lacked the will to make provision for themselves.

IV

The effect of recent social legislation, then, appears to have been to compensate the wage-earner for the check to the advance in his real wages.* The compensation would,

* Between 1914 and 1924 Professor Bowley and Sir Josiah Stamp estimate that average earnings for a full week increased 94 per cent.,

however, be illusory if the cost of the increased social services had been met by increasing the amount of taxation paid by the wage-earner. This does not seem to have been the case; on the contrary, there has been, in the period in which the increased expenditure on social services has taken place, a redistribution of the burden of taxation in favour of the wage-earner. The best indication of this is the ratio which the chief direct taxes, to which wage-earners before the war contributed practically nothing, bear to total Government expenditure. Income and Super-tax, House Duty, Estate Duties and Corporations Tax are included under the head of Direct Taxes; expenditure on the Postal Services, being met in the main by the trading receipts of those services, is excluded from the account of expenditure. The ratio in our first year, 1880-81, was just under a quarter; in 1890 it was only slightly higher, 28 per cent.; in 1900, a year of war, it had risen to 37 per cent.; in 1911 it was 44 per cent.; in the last year for which I have figures, 1924-5, it was 58 per cent. The contribution of Customs and Excise, on the other hand, fell from 60 per cent. in 1880 to 45 per cent. in 1911, and 33 per cent. in 1924. It may be objected that the increase in direct taxation has been due to and swallowed up by the increase in Debt Charges, which are mainly payments to members of the income-tax paying class. This is an irrelevant objection, since the burden of debt was not incurred for the peculiar benefit of the income-tax paying class, and there is no reason in the nature of the burden why it should be placed exclusively on their shoulders. In any case, before the war Direct Taxes increased while Debt Charges were reduced. In 1880, when Debt Charges amounted to £29·5 millions, Direct Taxes amounted to £18 millions, while in 1913, when Debt Charges had been reduced to £24·5 millions, Direct Taxes had risen to £78 millions. Even to-day, when

compared with an increase in the Cost of Living Index of 75 per cent. The advance in real wages, therefore, would appear to have been resumed in spite of the great increase in free and subsidised social services. Earnings were reduced by unemployment, which was greater in 1924 than in 1914, but were received for a working week that was on an average 10 per cent. less. Cf. *The National Income*, 1924 (Oxford, 1927), pp. 31 and 50.

Debt Charges have risen to £364 millions, they form a smaller proportion of national expenditure than they did when Mill published his *Principles*.

More exact estimates of the burden of taxation falling on different economic classes were made by Sir Herbert Samuel in 1919.* The result of his investigations for certain typical incomes is summarised in the following table; the figures relate to a family of five persons and exclude Excess Profits Duty; the taxation on the incomes of £100 and £1,000 is on the assumption that the incomes are "earned," on those of £5,000 and £50,000 that they are "unearned"; both actual amounts and percentages of income are given:

Income.	1903–4.				1913–14.				1918–19.			
£	£	s.	d.	Per Cent.	£	s.	d.	Per Cent.	£	s.	d.	Per Cent.
100	6	4	10	6·2	6	1	1	6·0	13	15	11	11
1,000	74	12	3	7·4	66	12	0	6·6	194	14	9	19·4
5,000	480	2	11	9·6	623	5	4	12·4	2,178	19	9	43½
50,000	5,118	8	11	10·2	9,089	5	4	18·1	31,959	19	9	63·9

Leone Levi's estimates at an earlier date† were rougher; but they may be set down for comparison, in order to show the trend of tax distribution; they give only the average amount of taxation per head in the working class and in the "middle and upper classes."

	1842.		1862.		1882.	
	s.	*d.*	*s.*	*d.*	*s.*	*d.*
Working class	27	4	27	0	25	11
Middle and upper classes ..	60	0	77	8	66	0

He estimates the percentage of his income that the average wage-earner with a family paid in taxes in 1842 at 16 and 1882 at 7⅓.

It is not possible to state what proportion of local rates is

* *Journal of the Royal Statistical Society*, March, 1919.

† *Ibid.*, March, 1884.

paid by the classes below the old income-tax-exemption limit. Sir Bernard Mallet* estimated it just before the war at three-tenths of the whole, or £22·5 millions in 1910; Leone Levi in 1882 at a third of the whole, or £12·7 millions. The Board of Trade in the Second Fiscal Blue Book, for the purpose of estimating changes in the cost of living, took dwelling-houses rented at less than £20, and so exempt from Inhabited House Duty, outside London, and houses under £50 rental value in London, as representing working-class houses, and calculated the change in the average rent, including and excluding rates, for the period 1880-1900. The increase in the burden of rates shown is just under £7 millions. Between 1900 and 1911 rents increased little if at all; the number of houses in the rental categories taken increased about 15 per cent., and rates on an average increased by a quarter. The residents in these houses would pay another $5\frac{1}{2}$ millions, or $12\frac{1}{2}$ millions more than in 1880; a small part of the whole increase in public expenditure. Since 1914 the increase in local expenditure has been very great; but the increased burden falling on working-class ratepayers has been limited until the last two years, first, by the increase in the ratio of Central Government grants to local rates; and secondly by the Rent Restriction Acts, which, by preventing working-class rents from rising as much as values generally, has tended to reduce the proportion of the burden of rates falling on them.

The combination of progressive taxation with the extension of social services provided by the State has had the effect of transferring a considerable portion of their income from the rich to the poor. In this transfer is to be found a part at any rate of the explanation of the improvement in the economic condition of the poor which even the war has not neutralised. The check to the rise in real wages has been compensated for by the increased provision of social services by the State and by compulsory advances in wages, in the form of insurance contributions, imposed on employers. At the same time the Insurance Acts and the Trade Boards Act promoted a re-arrangement or redistribution of income to the points at which the evil of poverty pressed hardest. Although the full extension and development did not come until after the

* *British Budgets*, p. 451.

war—indeed has not come yet—there existed when war broke out, in a complete if undeveloped form, a policy for dealing with the evil of poverty.

V

The problem of poverty was the mainspring of economic studies in this country before the war; it may be worth while in conclusion to consider what progress we have made towards its solution. As it presented itself to social reformers in the 'eighties and 'nineties of the last century, poverty was a problem partly of chronic want, partly of occasional misfortune for which no provision had been made, partly of inequality. There was a mass of misery due to chronic want, a sort of residuum that was left undisturbed when the increase in wealth in the nineteenth century "surged up" through the higher income classes. There was the intermittent or occasional want due to unemployment, loss of income through accident or sickness, or death of the chief wage-earner of the family. The inequality in the distribution of wealth was an element in the problem, since all consumption standards are relative, and the ostentatious extravagance of a rich class created a sense of poverty in the members of a poorer class who might have quite enough to meet the needs of physical existence and the conventional necessities of their own class.

The chief improvement has been in the raising of the lowest class. We have seen that the direct attack on low wages by Trade Boards and war-time Wage Orders is perhaps the most significant single reform. But by itself wage regulation could not have effected the improvement that has taken place. The mere raising of wage-rates would have caused unemployment; and unemployment would have brought wage-rates down again, if provision for relief in unemployment had not been made; and even unemployment relief would not have kept wage-rates up if the worker's capacity had not been raised *pari passu* with his rates. The conditions revealed by the enquiries of Booth and Rowntree, by the House of Lords Committee on Sweating, and the Royal Commission on Housing, called for the compulsory education and physical supervision of school-children, the improvement of insanitary

areas under the Public Health and Housing Acts, the better regulation of factories and workshops, the relief of the aged by Old Age Pensions, and provision for invalidity and unemployment. The element of risk in the problem has been met by Workmen's Compensation, the National Health Insurance scheme, Unemployment Insurance, and the most recent extension of insurance to provision for widows. The provision is still unsystematic and incomplete, but it has been sufficient to maintain unimpaired the standard of life of the working classes in spite of a great war and the most profound and prolonged industrial depression we have experienced. The best measure of the change is given by Professor Bowley and Miss Hogg's repetition in 1924 of the sample enquiry into poverty in five towns made in 1913. Adopting the same standard of poverty, they found that in spite of the extensive unemployment of 1924 the proportion of families in poverty was little more than half what it was in 1913.

The correction of inequality has not gone so far, while the resentment at inequality has grown. That is one reason, probably, why the progress that has been made in dealing with the other elements in the problem escapes notice. Yet something has been done. We have not yet habituated our minds to post-war standards of taxation; and, just as we forget in judging the wage of a wage-earner to allow for his employer's contribution to his insurance rights and his share of the £200 millions expended by the State on social services, so in judging the position of a man whose income is £10,000 a year we forget to allow for the deduction of £3,000 income and super-tax; or in noticing the magnitude of a deceased millionaire's estate to notice also the magnitude of the Estate Duties by which his fortune will be diminished before it reaches his heirs. How far we have moved is, I think, shown by this, that a collectivist writer,* framing a reformed income tax in 1905, dare not propose a maximum rate of income and super-tax combined of more than 1s. 8d. Since then we have had a combined rate of 12s.

Progress towards equalisation of economic conditions, however, is to be seen less in statistics of income distribution,

* *Riches and Poverty*, L. Chiozza Money, 1905.

even after taxation is deducted, than in the approximation of the standards of consumption of different classes. Fewer persons go short of food in a post-war trade depression than before the war. Medical Officers of Health report that the public health, and particularly the physical condition of school-children, is better in the worst spell of unemployment that the country has known than at any time in their recollection.* There is less superficial difference in the clothing of different classes than there was before the war; the poor have a greater variety of food than in any earlier age; rich and poor enjoy the same films, music-halls, wireless, and football matches, to the exclusion of less exciting entertainments. There is a shortage of housing, but that is largely because we are no longer satisfied with the kind of houses in which the poor lived in the nineteenth century. The modern press with its immense circulation caters for all classes without distinction. And these external similarities are largely the outcome of a more profound approximation of standards; the working-man's family to-day enjoys an intellectual education better than the middle-class boy, or indeed probably a boy of any class, enjoyed seventy years ago. The motor, a noisy and ostentatious mark of class distinction, by enabling his poorer neighbours to see the same rich man half a dozen times, when a brougham would have exhibited him only once, has given a false impression of the numbers and riches of the new rich; but even that distinction is disappearing as the motor-bicycle and light car are brought within the reach of the better-paid artisan. The general reduction in the hours of work since the war removes, or lessens, another difference between the classes. The artisan no longer " loses a quarter " if he follows the excellent middle-class custom of beginning work only after breakfast. A visitor who should return to this country after an absence of thirty years, and observe the change in the conditions of working-class life, would find it hard to believe that real income per head was probably little greater now than then.

Now this improvement is not all of it by any means due to State action. The influences on which the statesmen of the *laissez-faire* school relied have continued to operate.

* Cf. *The Third Winter of Unemployment*, Astor and others.

Wealth per head grew rapidly until war broke out and reduced it; and the technical progress of industry has brought within the reach of relatively poor classes amenities of life that were outside the reach of the rich a generation ago. The redistribution of the occupied population in accordance with the demand for labour shown by varying wage-rates had important influence in raising the average level of wages. The numbers in low-paid occupations like agriculture declined, while the numbers in the relatively well-paid mining and metal industries increased in much greater proportion than the increase in population; the average of wage-rates, if no allowance is made for numbers in the different trades, increased between 1898 and 1913 only 10 to 11 per cent.; when the average is weighted to allow for changes in numbers, the increase was 18 or 19 per cent. The relative rise in the lowest wage-rates is a change that wage legislation helped; but it was probably influenced also by the spread of education and increased mobility of labour, factors on which the opponents of wage legislation used to rely. The diminution in the consumption of alcoholic drink has been so great that it too has probably contributed to the general economic improvement. More important is the decline in the birth-rate, which Mill and his predecessors looked to as the chief source of an improvement in the condition of the wage-earner. Dr. Bowley and Miss Hogg found that about a third of the reduction between 1913 and 1924 in the number of families living in poverty was attributable to the smaller size of families and the consequent reduction in the needs that had to be met from a given wage.

If there had been no change in public policy, therefore, there would have been some improvement in the economic condition of the mass of the population; and, without the co-operating influence of the unaided and unregulated development of industry, the opportunities of public policy would have been very limited. Yet public policy must be credited with the chief part in the recent improvement. The most marked improvement has been made in the last twelve years, in spite of war and trade depression, when wealth per head has probably declined; and this improvement has taken place, because it is since the war that the

full effect of the pre-war legislation has been felt. Public policy has secured for the lowest-paid industrial workers a wage that is reasonable in relation to the wealth of the community, and made provision for them in unemployment when industry could not pay them those wages. Public policy again has assisted and compelled wage-earners to make provision for the risks of sickness, unemployment, and premature death, and has made direct provision for old age. Public policy again is responsible for the increased care of child-life. Without interfering with or abrogating the essential elements of freedom in the policy of *laissez-faire*, and without assuming the awkward and dangerous responsibility for fixing prices and incomes, Parliament has nevertheless interfered materially with the distribution of wealth, has done much to secure a better distribution, and has done more probably in the present century to solve the problem of poverty than any previous generation or any other country has been able to do.

XII

PROPERTY AND INHERITANCE*

I.—The Present Position of Property.

Political controversy in this country, so far as it is rational, turns mainly on definite, concrete proposals. Abstract discussions of fundamental institutions have little influence on political practice, because the average voter and the average administrator make up their minds on principles only when some pressing, immediate problem compels them to. Yet the fundamental institutions are changing all the time. Every new statute modifies them in one direction or another; and we can perceive the direction, and control the modifications, only if we put ourselves to the trouble of studying them.

Of the fundamental economic institutions, private property and freedom of enterprise, this is particularly true. We tend to take them for granted, and assume that our ideas on them are clear; yet every decade sees some important change in them, without any corresponding modification of our notions. It is not a century ago since property in human beings became illegal under the British Crown; a longer period has elapsed, but still only a short period in the life of a nation, since married women became legally capable of holding property. In the scope and content of the right of property the last century has brought extensive changes. In the following pages it is proposed to examine the most significant of these, and to discuss the political problems to which it has given rise.

The main facts about property in this country are revealed by the returns made for the purposes of Estate Duty. All estates of £100 value are liable to the Duty; and, although this limit excludes a certain amount of small property, and there is doubtless some under-valuation and other evasion

* A lecture delivered before the Liberal Summer School in Cambridge, August 7, 1923.

above the limit, the returns give us a representative picture of the way property is distributed and the forms that it takes.

The last return is for the year ending March 31, 1921. In that year 97,400 estates, with an aggregate gross value of £431,000,000, were returned for Estate Duty purposes. Of these 92,000, or 94½ per cent., under £10,000, accounted for rather less than a third of the aggregate; 5,000, or 5 per cent., between £10,000 and £80,000, accounted for rather more than a third of the aggregate; and 480, or ½ per cent., over £80,000, accounted for the remaining third. Of the £431,000,000, Government, Municipal, and Joint Stock securities represented 44·8 per cent., house property and business premises 15·8 per cent., and land 8·6 per cent.

Stock Exchange securities were the largest element in all estates of more than £5,000; house property and business premises in estates between £100 net and £5,000, and cash in the small estates of less than £500 gross value.

The return brings out clearly two important facts, the inequality of distribution of property, and the preponderance of Stock Exchange securities among the different forms of property. This inequality enhances, and in part accounts for, the inequality of incomes which is a chief cause of social unrest and the chief cause of waste in the modern economic system.

The degree of inequality is not brought out if we consider only the estates that paid duty. The number of deaths in 1920 was 600,000, so that five-sixths of the population may be presumed to have less than £100 property each, or, if we ignore persons under twenty, three-quarters.*

The preponderance of Stock Exchange securities among property forms is a recent development. A hundred years ago the distribution of property was very different. Small agriculture was, both absolutely and relatively, much more important than it has become since, carrying with it a much wider distribution of capital. Small ownership of land also had not yet been restricted to the relatively small numbers that distinguish Great Britain from every other country in

* The Estate Duty returns are insufficient to show the distribution of capital among the living for other reasons also, which are explained in the following essay on *The Distribution of Capital.*

the world. Land as a form of property was much more important than Stock Exchange securities; of these, Government Debt was much the most important. Industry, commerce, finance and transport were all on a much smaller scale. In the aggregate they were more important than land, but the ownership of the capital employed was much more widely distributed. Little masters in industry, small merchants and shopkeepers in commerce, carters in transport, private family banks in finance, all implied a wide distribution of the ownership of capital. And this wide distribution was connected with and due to, not only the smaller scale of the enterprises, but the different method of conducting them; joint stock was confined to a relatively small number of statutory corporations and public utility undertakings; the great bulk of businesses were conducted personally by their owners.

The common notion of property is that it is an exclusive right to the use and control of a material thing. So it was a century ago; but it is so no longer in its most important categories. The large owners of to-day can no longer display their property by pointing to this thing and that thing and saying " This is mine "; the only material evidence of their rights is a scrap of paper, entitling them to certain payments. Their rights to these payments are more absolute and unconditional than the property rights of a century ago; ownership does not necessarily involve any supervisory or administrative responsibilities; but the rights are restricted to the money payment. The owner of £100,000 ordinary stock of the L.M.S. Railway cannot point to any section of the line that is his, require a train to stop at a station at which it is not scheduled to stop, or interfere with the administration of the company. The holder of War Loan cannot even indicate the plant or machinery that yields him his income; his security is the wealth of the country as a whole and the Government's constitutional right to tax that wealth to pay him his dividends.

The cause of the change is the growth of large-scale industry and the increasing complication of commercial relations. The old association between the ownership and use of wealth became impossible, when wealth began to take

the form of modern machinery, ships and railways, and commerce extended from the movement of luxuries in small quantities to the exchange of necessaries in vast amounts between different continents. Legal devices for separating the ownership from the use and administration of capital became necessary, and reluctantly, and without any consciousness of the developments it was assisting, Parliament sanctioned joint stock companies with limited liability.

This separation of the ownership and use of wealth is not, of course, confined to the last hundred years. Interests were charged upon landed estates, and, at an earlier period, wardships and marriage and other feudal incidents were just as "abstract" and "functionless" forms of property as modern joint-stock securities. But recently this separation has grown, and, as it grew, has revolutionised the legal aspect of property. Property originally was the legal right to the use of a thing, a right exercised by the owner; then there developed a tendency to exchange this right for a money income charged on the thing, and to relinquish the use of the thing itself to the person who undertook to pay the money income; latterly property has taken more and more the form of a bare right to money payments, obtained, not by forgoing the use of any particular concrete thing, but by transferring to the borrower the lender's right to spend his unspent income, and secured, not by being charged on some particular thing which the borrower uses, but simply by the borrower's undertaking to pay.

With this separation it has become possible to disentangle the different interests in any object of property. Just as the worker no longer makes a thing, which is the reward of his labour when it is made, but contributes his labour to an unending productive process in return for a money payment settled beforehand, so the capitalist hands over his capital in return for a share in the financial proceeds of a business in which he may take no active part. Less than half the property returned for Estate Duty purposes consists of tangible possessions, more than half consists of contractual rights to money payments.

This disentangling of the different interests in material capital, and the easy transferability of rights to income which

it makes possible, are at once a necessity to the social organisation of modern industry and a convenience to the individual property-owner. They are the source of the elasticity and adaptability of modern industry that makes it possible to apply capital wherever exceptional natural resources, exceptional managerial ability, or an exceptional economic need offer remunerative employment for capital. It facilitates the social regulation of industry by legislation and trade union action. It enables the individual owner to spread his risks, to participate in the profits of enterprises which he could never have undertaken himself, and to anticipate or postpone, as suits him best, any income to which he is entitled. But, if convenient, it is an arrangement of doubtful stability; the property-owner, who considers the present status of property, has good reason to be nervous.

In the first place, owing to this change, property has lost the obvious *prima-facie* justification that attaches to tools in the possession of their user, land in the occupation of peasant proprietors, houses and furniture in the possession of their users; it may be doubted whether respect for property rights, derived from a time when these were the typical forms of property, will indefinitely afford a support for the security of property rights of a very different order.

In the second place, property rights based entirely on contract, unsupported by the actual possession of any material object, are liable to insidious attacks by the very authority by which they are created and maintained. The State makes them possible by its legislation and upholds them by its police power; but by its legislation it is constantly modifying the content of property rights, and by its financial policy it is constantly altering their value. The Russian delegates at Genoa pointed out that, in extinguishing property rights without compensation, the revolutionary government could cite the precedent of the United States of America, which first extinguished property right in slaves, and, more recently, destroyed the value of property in breweries and distilleries, without any compensation; they might have pointed out that all the belligerent powers, by their inflationary policy, had at least halved, and in some cases

extinguished, the value of their leading gilt-edged securities, without compensation and almost without comment.

In the third place, property must be unstable so long as it is so unevenly distributed. The ideal of democratic equality may still be the ideal of a minority, but it is a growing minority, and the existing distribution of property is the most glaring denial of it. Whatever social justification the institution of property may possess—that it has a great potential value I shall try to show in a moment—the number of citizens who have actual experience of its benefits is too few to ensure the general appreciation that is necessary to stability.

To sum up, property in the last century has changed its form and become concentrated in fewer hands. The growing inequality of distribution has come about in an age which was becoming less and less tolerant of social inequality; the change of form, with its separation of ownership from use or control, has made it possible to substitute some form of public control for private control, and perhaps a quarter of the country's wealth is now so publicly controlled.

II.—The Social Purpose of Property.

The question arises, Is private property in its new form worth preserving? Is there any social purpose, that a democratic society can approve, which the institution in its new form serves? The democrats of the Socialist parties answer the question in the negative, and refuse to believe in the democratic professions of those who answer it in the affirmative. Some consideration of the various theories of property—the explanations that have been offered of the fact that the institution of property does exist and is maintained—is necessary before we can decide.

The first, and still perhaps the commonest, theory of property is the view that it is a "Natural Right." "Natural" is a question-begging epithet that saves a lot of thinking; but what this really amounts to is that the institution of property responds to something so fundamental in human nature that any denial or disturbance of property rights would automatically set up reactions leading to their

restoration. The recent Russian experiment, which began with the complete abolition of all private property, and ended with the biggest extension of private property, by the recognition of the peasants' right to the land they had seized, that has ever been made at one time, is some justification of the theory; but the theory is an assertion of the importance of the property right rather than an explanation of its origin and persistence.

The "Natural Right" theory merges into, and is commonly confused with, what we may call the "incentive" theory. According to this, property rights are necessary to induce people to work, to use wealth economically, and, by saving, to accumulate capital. It was appropriate enough in an age of peasant proprietors, little master craftsmen, and small scale dealers; it is insufficient as a justification of property of the kind that has emerged in the last century, in which use and ownership are widely separated, and property rights are largely acquired, not by personal effort and sacrifice, but by inheritance. Ownership as an incentive to work and save and use economically is an element in the explanation of property, but not a complete theory.

A theory that does apply to the modern forms of property is that which T. H. Green and Bosanquet put forward. The explanation of the property right, as of other rights, is that it is necessary for moral freedom in society:

". . . in order to express a will in an individual life (which is incomplete except as the life of a household), there must be a power of moulding the material world in the service of ideas, which is conditioned by free acquisition and utilisation. The institution of property, then, as an ethical idea, consists in the conception of individual . . . life as a unity in respect to its dealings with the material instruments of living. It is not merely the idea of provision for the future; still less the certainty of satisfying wants as they arise from day to day. It is the idea that all dealings with the material conditions of life form part of a connected system, in which our conceptions and our abilities express themselves. It binds together the necessary care for food and clothing with ideas of making the most of our life and of the lives dependent upon us. A being which has no will has so far no property—

a child has in practice, and a slave had by Roman law, property in a secondary sense—and a being which has no property has so far no actual will."*

The same explanation of property is implied in a current phrase of ordinary speech. We speak of a man, who has property enough to be able to live on the income it yields without working, as being "independent." No one is actually independent in the modern world; the richest of us is the most dependent on the economic organisation for a money income, and for the supply of goods to spend it on. But the person with "independent means" has a wider scope of choice, an opportunity of continuous initiative, a freedom, and therefore a responsibility, in his economic relations, that the man who has to work for his living lacks.

The justification of property, if it can be justified, is to be found in the fact that it affords a basis of personal independence in a society the economic and political organisation of which tends to crush personal independence.

Consider the present system of wealth production. The most obvious characteristic of it is its organic character; every part is dependent on the whole. Every person in industry is specialised to a particular service, and dependent for the opportunity of rendering that service, and so acquiring a livelihood by it, on fitting himself into industry. The individual's problem is no longer work, but employment, because isolated work is not possible in modern industry; to use the hackneyed but accurate simile, no individual is more than a cog, or at most a cog-wheel, in a machine which no individual controls, and his income as a worker depends on the cogs, of which he is one, engaging with the other cogs of the machine. This dependence of the individual on the organisation is most complete in the case of the wage-earner or salaried worker, and is seen most clearly when he is out of work; but the professional man, the great merchant and the large employer, considered as workers, are equally dependent on the organisation. Their income depends on their finding a buyer for the services they have to sell; to themselves, if they cannot sell it, their knowledge or ability

* *Philosophical Theory of the State*, p. 303.

is of no value. And the amount of their income, their economic position, depends on the bargains they can make—on the price they get for their services, and the prices they have to pay for the goods they consume. Every one is in his place in the chain of prices, his economic fate dependent on the two sets of prices, those he pays for the goods he needs and those he receives for the services he renders.

This dependence is commonly represented as a dependence on capital, and, since capital is necessary to the working of the productive system, that dependence is a fact; but the dependence on the organisation is an independent and more truly fundamental fact. The worker is dependent on capital, because the use of capital is involved in the productive system; his dependence on the organisation will persist so long as the present technical organisation of production persists; it will not be affected in itself by any change in the ownership of the capital. Hence the complete dependence of the propertyless wage-earner on the organisation, on "employment," to use the common expression, remains through all the changes in the ownership of capital of which we have experience. It makes no difference to the munition worker, *qua* worker, whether he is discharged by Woolwich Arsenal or Messrs. Vickers at Barrow; in either case his income ceases, because his special skill is worthless outside the organisation. Strikes occur in the Consumers' Co-operative Movement and in Municipal Trading undertakings, as they do in private employment, and for the same reason; the worker's economic position, *qua* worker, being dependent entirely on the price and terms which he can get for his special skill in the organisation to which that skill is adapted, he finds himself in conflict with the persons who control that organisation, and, failing to come to terms amicably, stops the organisation functioning, in order to get his way. Associations of workers for the undertaking of collective contracts, like the ill-fated Building Guilds, disguise their dependence under a change of form without affecting the substance; if their work is wanted, and they can offer it on terms that the persons wanting it can afford, their incomes are secure; if not, they are unemployed equally as much as the private builder's men.

Now, one of the most marked features of this productive organisation, a feature first insisted on by the great socialist writers like Marx, is the tendency towards a concentration of directive authority in fewer and fewer hands. This concentration is due simply to the technological and administrative principles on which the system is based. It is quite independent of the concentration of the ownership of capital with which it is nearly always confused. The General Manager of the L.M.S.R. controls and directs an organisation on which over 300,000 workpeople depend for a livelihood, not because he owns the capital—he doesn't—but because the development of the railway system has created his great office. It makes no difference to the scope and content of his powers, since they arise from the nature of the organisation he directs, whether the railway is owned by a single capitalist, by some scores of thousands of investors (as the L.M.S.R. actually is), or by the State.

Syndicalism is a reaction against this concentration of the responsible, directive work in modern industry; that is its significance. It has expressed itself in a variety of experiments in the way of devolution and decentralisation. These should be persisted in, just because they run counter to the trend of modern industry. But the trend has hitherto been too strong for them. So strong is the trend that no mere constitutional arrangement, which gives workers a vote at some stage in the control of their industries, is going to be effective. The workers can, and do, participate in the *regulation*, in the framing of the general conditions, under which industries are carried on; but no development on these lines admits them to a share in the *direction*, the actual administrative control, of the industry.

The basis of this concentration is technological, It is due to the advantages of large-scale enterprise, which, in its turn, is economical only if its widespread activities are co-ordinated and knit together by centralised direction. The technique of industrial administration—modern account-keeping, planning and designing departments, etc.—makes the tendency economical. And the ever-widening range of commercial exchanges (when not interrupted by wars) exercises a steady pressure towards larger and larger scale.

The tendency is shown in democratically governed, as well as in privately administered, enterprises. The civil servant has a greater control over the people affected by his work, and a wider discretion, than his predecessor of fifty years ago; just because social development has brought more within the scope of his job and created the need for his discretionary action. The trade-union secretary has a bigger function, affecting more members, and requiring greater freedom of action on his part, just because unions must be bigger to do their work, and the day-to-day decisions that have to be taken cannot wait on the ascertainment by a slow and lengthy democratic procedure of the individual members' will. The Co-operative Movement shows the tendency to concentration in a very marked degree; societies are bigger and do a larger and more varied trade; hence the responsibilities and powers of directors and managers are bigger. Municipal trading and the administration of statutory authorities have afforded some of the most glaring instances of autocratic behaviour on the part of administrative heads.

We may sum up this tendency by saying that the technological development of industry has created a new order of social authority; this authority arises from, and depends on, the productive organisation; it is, therefore, independent of the varying arrangements that may be made about the ownership of the capital in the enterprise—another result of the separation of the ownership and the use of capital. In consequence the propertyless worker, whether unskilled labourer, responsible organiser, or scientific expert, is ever more and more dependent on fitting himself into an organisation which is directed by ever fewer and fewer individuals.

Property, then, has a social purpose, a purpose that the democrat may approve; it is the traditional basis of personal independence in a society the economic organisation of which (and the political organisation also, though we have not time to elaborate this) tends to subordinate the individual to the organisation; or, to put it more concretely, to subordinate the many to the few who direct the organisation. But it fulfils this purpose only for the small minority who possess property, for the 8 per cent., say, who possess as

as much as £1,000. Personal independence, the power to hold out for fair terms of employment, the reality of choice and personal responsibility for choice, are objects that in any democratic organisation of industry we should hold before us; but we should seek some other method of attaining them if our present inequality of distribution is inevitable. Whether this is so, we have now to consider; but, before we come to this, there is one further aspect to be noted of the position of property in our social organisation.

The maintenance of private property and the extension of State action in the economic sphere are not exclusive alternatives. On the contrary, the need for the wide diffusion of property and the need for a continued extension of State action are mutually complementary, and arise from the same technological developments in industry. We have seen that it is the growing complication of economic relations and the growing dependence of the individual on the productive organisation that make the possession of a reserve of property for most people an essential condition of any real freedom and independence. It is the same complication and concentration of industry that explain the changes in the relation of Government and industry since 1833, and call for a further extension of the regulative and the administrative action of the State in industry. More State enterprise is needed, not less, because there are many social needs that can be met, and social activities that can be organised, only by communal provision. More industrial legislation is needed, not less, because social relations are becoming more complex, and require more laws to keep them orderly, and because there are still cases of exploitation of the weak which legislation could prevent. There is even a case for more taxation, not less, because current expenditure by the rich on luxuries is much greater than the post-war world can afford, and taxation for debt repayment might check it.

But the maintenance of the present right of property and a wide diffusion of its enjoyment is needed as well, to provide a check on bureaucracy, to enable the wage-earner and salaried worker to bargain on equal terms with the large-scale employer, whether that employer be public or private, to

facilitate voluntary co-operative activities. State action supplements the economic organisation based on property; the social problem of property is the problem of diffusion.

III.—The Inequality of Property.

Is the unequal distribution of property, then, inevitable? Inequality of property is, in part, merely a reflection of inequality of incomes. People with large incomes can save and so accumulate property. This inequality of income, in turn, is in part a result of natural inequality, but much more of the inequality of opportunity, which the existing economic inequality involves, and the results of both natural and circumstantial inequality are magnified by the large scale of modern economic enterprise.

The inequality of property is, however, much greater than the inequality of income. Assuming, to be on the safe side, that all the persons of twenty years of age and upwards who died in 1920 and were exempt from Estate Duty, left £100 each, the distribution of property, according to the sample given by the Estate Duty statistics,* would be as follows:—

	Per Cent.	*Per Cent.*	*Per Cent.*
Persons	76⅔	22	1⅓
Aggregate Property	7	30	63

This may be compared with Professor Bowley's estimate of the distribution of income in the year 1913, the latest year for which reliable income estimates can be framed:

	Per Cent.	*Per Cent.*	*Per Cent.*
Persons	73	21	5½
Aggregate Income	35½	17	47½

* The Estate Duty sample, however, understates the degree of inequality. Cf. *infra*, pp. 300 *et sqq.*, for a more exact estimate of the distribution of capital.

To put the difference in a more summary way, about 6 per cent. of the persons own half the income of the country, but three-quarters of the property. And the inequality of property, while it is greater than the inequality of income, has even less economic justification.

The explanation is to be found in the right of inheritance. Personal qualities, exceptional ability or industry, do not survive their possessor; accumulations of wealth can be transmitted to descendants. Thus the effects of inequality are cumulative; the advantage gained by one generation of a family provides a start in the race for wealth in the next generation. And the change in the form of property that we have noted enhances this cumulative effect.

Formerly, when ownership and use of capital were indissolubly associated, the intrinsic difficulty of administering and holding together an estate increased disproportionately as the estate increased, and the fact that the descendants of the exceptional person who created the family fortune rarely inherited his exceptional ability was a constant influence making for the dispersion of large accumulations. This influence was counteracted by the practice of converting large fortunes into land, and tying up landed estates by strict settlements; but the strictest settlement could not protect an estate from the incompetence and folly of the heir who would have to administer it. Today we have changed all that. By the separation of ownership and use, and the vesting of ownership in gilt-edged securities, ground-rents, and the like, administered perhaps by conservative investment trusts, we have made it possible for an heir to draw the income of his estate without taking any part whatever in the administration of the capital which it represents. Hence the snowball accumulation of large fortunes is not liable to be checked by the thawing influence of incompetence, relative or absolute, in the heir.

Now the inequality due to inheritance must be sharply distinguished from the inequality that results from differences in the natural capacity and industry of each generation. The latter has some economic justification; large rewards are possibly needed to induce people to make the effort and sustain the anxieties which modern industry requires in its

higher direction, and society probably gets more out of a Henry Ford than it pays him. From this point of view the Estate Duty figures are a little misleading. They suggest a greater separation of ownership and use of capital than has actually taken place; all joint stock securities *may* be owned by persons who take no part in the administration of the businesses, the capital of which they represent, but in practice not all are so owned; in manufacturing industry, and merchanting in particular, a large part of the stock is held by the persons in active control—even in the case of businesses on the scale of the Ford Company. But this association is severed when the man who made the business dies. The property his heirs enjoy is not an incentive to effort on their part, but rather a discouragement. The economic grounds on which the right to *accumulate* property rests, therefore, afford no justification for the right to *inherit* property.

Against this it may be urged that the right to bequeath, and so to provide for one's offspring, is an important element in the inducements that lead great entrepreneurs to perform their useful functions. This argument confuses two things. One is the desire to ensure economic security for one's offspring, a legitimate ambition, but one that does not require the present unlimited right of bequest for its fulfilment. The other is the ambition to secure for one's family the social distinction of belonging to the very limited class of the very rich. The ground of this distinction is the convention that the ability to be idle and expend lavishly is evidence of superiority; if social conditions made such a method of distinguishing oneself impossible, other conventions would take its place, just as during the war the efforts of profiteers to demonstrate how much they could spend were balanced by the efforts of other people to show how little they could spend, socially a more desirable way of distinguishing oneself. In other words, the incentive which the power to "found a family" at present offers is a desire for a sort of posthumous social distinction which could be satisfied in other, socially more desirable, ways.

IV.—The Right of Inheritance.

The way to attack the problem presented by the unequal distribution of capital, then, is to limit the present unrestricted (or almost unrestricted) freedom of bequest. In principle there is nothing revolutionary in such a proposal; the right is of recent development, and it is found in no other country in the unrestricted form in which we have it. The simplest form of restriction is an extension of the Estate Duties, as proposed by the Labour Party, or by the assumption at death by the State of all property, in exchange for annuities for the same term as an author's copyright lasts after his death, or such longer term as may be thought equitable. A more ingenious method is that proposed by the Italian philosopher, Eugenio Rignano.

Rignano traces all the economic evils of modern society to the separation of labour from the instrument of production. His object is to restore these instruments to the possession of labour. Directly, this restoration is impossible, owing to the complexity of the modern productive system; but indirectly, through the agency of the State and various co-operative and syndicalist organisations, it may be achieved. He differs, however, from most Socialists in recognising the stimulus to work and save that private property now affords, and the necessity of preserving this stimulus, if the accumulation of capital is to proceed.

He proposes, therefore, to leave the right of succession, but to restrict it to the bare limits necessary if it is to operate as an incentive to wealth production and capital accumulation. The restriction is to be imposed in the form of an inheritance tax, " progressive in time." In other words, instead of making the tax progressive, like the English Estate Duties, a higher rate of tax being levied on the larger estates, he would graduate the tax according to the distance the estate had passed from the person whose activity or saving first accumulated it. Thus, the tax might be 20 per cent. at the first transmission, 40 per cent. at the second, 60 per cent. at the third, 80 per cent. at the fourth, and 100 per cent. at the fifth; this would mean that on an average all accumulations of wealth would pass to the State by the

end of the third generation after that of the person who made them.

The obvious administrative objection to this proposal is the difficulty of distinguishing between the elements in a single fortune which are at different stages in their progress towards the national exchequer. Dr. Dalton, who has familiarised English readers with Rignano's proposal, considers that they can be overcome, but, to lessen them, he proposes a modified and simplified application of the principle. He would confine the scheme to differentiating between personally accumulated and inherited property; these, he suggests, might be called Earned and Unearned Property, to correspond with the distinction between earned and unearned income for purposes of income tax taxation. Estate Duty would be levied on both categories of property, but the scale of duty would be much higher on the unearned than on the earned property. In addition, in order to make the tax effect a more rapid equalisation of property, he proposes to add a succession or legacy tax, levied on the recipients of legacies, and graduated progressively according to the size of the legacy.

There are obvious administrative difficulties, quite apart from the political difficulties involved, in giving effect to either of these schemes. They turn chiefly on the difficulty in preserving the distinction between " earned " and " inherited " elements in an estate, and, in Rignano's scheme, between property in its first, second, and subsequent hands. It would not be sufficient to register the money value of the original estate, because capital values vary with the state of business and the rate of interest; an estate consisting of a couple of tramp steamers might have been worth half a million in 1919, and almost nothing in 1922. A high exemption limit to the taxes would simplify the problem, but not remove it.

To overcome this difficulty Dr. Dalton makes the heroic proposal that the legal ownership of all inherited property should be vested in the Public Trustee, who would then administer for the State's benefit the portion taken in taxation, and administer for the equitable owner (the heir) the portion left to him, paying over to him merely the income.

The device is almost too simple, and suggests certain doubts.

In the first place, the vesting of the proceeds of the tax in the Public Trustee hardly seems a sufficient safeguard against the temptation to use these proceeds to meet the current expenses of Government. The vesting in the Public Trustee is advocated in part as a method of preventing the dissipation of capital accumulations by improvident heirs; the size of the national debts of the States of the world suggests that democratic governments are more, not less, improvident than the average of heirs.

If the danger of dissipating capital accumulations, however, can be overcome by vesting them in the Public Trustee, or in Boards of Public Assets Commissioners, another difficulty suggests itself. The Public Trustee would presently find himself in the position of the hero of Mr. Wells's early novel, *When the Sleeper Wakes*, who, having fallen into a cataleptic trance for several generations, was made their heir by a number of rich people, and woke up finally to find himself the owner of the whole world. Experience, as has been stated recently by Mr. Keynes, tends to show that efficiency in administration of trustee securities is to be found in a number of investment trusts, each handling about £10,000,000 of securities, rather than in a few big trusts. The enormous accumulations which the proposed tax would quickly commit to the management of the State would hardly be administered efficiently.

A third objection lies in the economic effect of tying up in trustee securities all accumulations of capital except those made by men still living. True, it would hamper the dissipation of them, but equally it would hamper the productive use of them. Economically one of the most important services that capital renders is the opportunity it gives to its owner to experiment, to take risks, to undertake enterprises that will not bear fruit for a long time. The personal interest that an owner takes in his property, where his property is not yet reduced to an abstract right to money payments, is also a loss to be deplored; the upkeep of agricultural land, the care of house property, the intensive supervision of machinery by people of a mechanical turn of mind, the attachment to a

family business, are sources of wealth that a departmentalised Public Trustee could hardly supply.

If, moreover, as is probable, the heir to property sought to recover the full control of the capital value of his inheritance by assigning his income rights as security for a loan, the advantages of vesting the legal ownership of the estate in the Public Trustee would be lost. Such assigning might be prohibited, but the effect of such prohibition would probably be, not to prevent the practice, but only to complicate it, just as the attempt to prohibit sales of land and the creation of subsidiary and contingent interests in land only succeeded in making English Land Law the most complicated branch of all the complicated mystery of law. Lawyers would find ways of getting round the separation of the legal from the equitable ownership of estates, and inherited property of all kinds would presently acquire the characteristics of an encumbered English landed estate before the reforms of the Victorian age.

These administrative difficulties would have to be considered in any attempt to act on Rignano's or Dr. Dalton's proposals; but they are not decisive. Dr. Dalton is justified in claiming that equal or great administrative difficulties are successfully overcome in much existing legislation. The decisive question is whether we desire the progressive reduction of the field of private property, which is the real end of these proposals. To accept them is to give up the attempt to diffuse property, and to place our reliance entirely on constitutional safeguards to secure personal liberty and independence against the pressure of modern industrialism.

In the circumstances of post-war England, however, the ultimate effect of the Rignano principle need hardly be considered. The National Debt is so great that there is no likelihood of the State accumulating assets as a result of taxation for some generations to come. Any surplus of revenue over current expenditure should go in repayment of debt. The difficulty will be to secure a surplus. From this point of view Chancellors of the Exchequer of all political complexions may welcome the Rignano principle, especially in the more practicable form into which Dr. Dalton has thrown it. By taxing inherited property at death at a

higher rate than " earned " property, and by imposing a graduated tax on legacies, as well as on the value of the estate as a whole, the Death Duties might be made to yield more even than at present with less danger of checking the accumulation of capital. At the same time the tax would tend to lessen inequality, a principle already embodied in our tax-system and capable of extension.

We have still to consider the possibility of securing the diffusion of property, and, in particular, of so restricting the right of bequest as to promote the diffusion instead of the concentration of property. In this aim, a neglected suggestion of John Stuart Mill's is worth consideration. Standing on the watershed that divided the old economic order from the new, Mill was acutely aware both of the evils of the authoritarian order that had been swept away and of the dangers of unrestricted freedom of contract on a basis of absolute property rights that was being substituted. He proposed, out of respect for the " incentive " argument, that a man should be free to bequeath his property, but that a limit should be set on the amount that any one man might inherit. The end he had in view could be attained with more certainty and less administrative difficulty by a rather different regulation; it might be made a condition of the right of bequest that the estate, after paying Death Duties, should be divided, and that the fractions into which it was divided should be smaller the bigger the value of the estate. The condition might be put in the form of a scale: Estates of £5,000 and under need not be divided; of estates of £5,000 to £10,000 as much as 60 per cent. might be left to one person, and then the percentage that might be left to any one person would diminish to perhaps 5 per cent. in the case of estates of a million and upwards. At present, when a millionaire dies, his place is taken by another millionaire; the object of this type of proposal is to secure the dispersion of each generation's accumulation at the end of the generation, to enforce a continual redistribution of property, and to substitute a large number of small fortunes for a small number of large fortunes. The rate of change would be set by the scale adopted, and the steepness of the scale would depend on the strength of society's desire for equality.

Mill found himself, in putting forward his proposal, faced with a difficulty he could not overcome. At that time his proposal would have involved the breaking up of the unity of large industrial enterprises. Since his time the development of joint stock has removed the difficulty. The separation of the ownership of capital from the administration of industry has made possible any division of the former without affecting the unity of the latter.

Mill's proposal, so far as I know, failed entirely to secure consideration. No country or party has deliberately adopted a policy of equalising property. It is not that the principle of compulsory division at death is novel; it is well-established in the practice of other countries, though not with the direct object of promoting equality. Nor are the administrative difficulties insuperable; most of them have already been faced and overcome in the administration of the Estate Duties; evasion by gifts *inter vivos* would promote rather than prevent the object of this reform. It would seem that the distinction between the effects of the property right as such and the effects of the inequality of its distribution has escaped politicians. The defenders of property are, in the main, the defenders of inequality; the advocates of equality have given up all hopes of reforming property, and thrown in their lot with the authoritarian reformers who seek to abolish it.

A generation ago Matthew Arnold exhorted English people to "choose equality and abjure greed." More recently Mr. and Mrs. Webb have revived this precept, and the need of the advice is as great as in his time. What progress has been made in the interval has been due mainly to progressive taxation, the motive of which was almost purely fiscal, and the undiscriminating outcry from the richer classes against the pressure of this taxation to-day seems to indicate a determination to choose greed and abjure any thought of equality. Yet the organic, highly centralised productive system that is developing makes greater economic equality essential, if the liberty that its productiveness promises is to be realised.

The diffusion of capital is the most *conservative* way of securing this greater equality that suggests itself, and the

regulation of inheritance is only one element in a general policy of promoting the diffusion of property. In the face of the characteristic inequalities of modern industry democratic reformers have concentrated on extending the scope and activities of the State. But existing States are not such perfect expressions of the people's will that we should wish to put all our eggs into that particular basket. The extension of the State's economic activities is necessary and will continue; the dangers it involves would be less, if it could be supplemented by the creation of a large independent class of small owners of property. Whether such a policy is possible I cannot say; all I can say is that it has been achieved in Irish rural society, and it has not failed, for the simple reason that it has never yet been tried, in English industrial society.

XIII

THE DISTRIBUTION OF CAPITAL IN ENGLAND AND WALES*

The difficulties of the post-war economic situation have given a new interest to investigations into the amount and the distribution of the nation's wealth. These have, as is natural, been directed mainly to investigations of the distribution of income; capital accumulations have been estimated with great care in the aggregate, but less attention has been given to their distribution. It may be of interest, therefore, to attempt to ascertain the distribution of capital. Certain difficulties at once suggest themselves, particularly difficulties of definition and measurement. For the purposes of this paper I propose to use the term capital to cover all accumulations of wealth in the possession of individuals, expressed in terms of money. Now the only possessions of, perhaps, a majority of people are bits of furniture and personal effects, on which it is very difficult to set any money value. In the case of large estates, on the other hand, the chief possessions are investments and real estate, the capital value of which is constantly changing and will depend, in particular, on the prevailing rate of interest. These difficulties are not, however, important for our present restricted purpose of studying the distribution of capital; so long as we know that the method and basis of valuation are the same for all estates that we wish to compare, we can get the proportionate distribution of capital even if we are not certain of the absolute amount of the aggregate of capital. So far as the method of valuation is different for different categories of capital, and these different categories enter into estates of different sizes in different proportions, we shall have to examine critically methods of valuation. But for the greater

* Presidential address to the Manchester Statistical Society, read February 18, 1925.

part of the wealth of a country it is not difficult to arrive at a value at any moment; it is only when we wish to compare capital at one period with capital at another that the difficulties become serious.

The chief source of our information about capital and its distribution is contained in the tables published by the Commissioners of Inland Revenue of estates paying Estate Duty each year. All estates above £100 value are liable to Estate Duty, a return has to be made before Probate or Letters of Administration can be obtained, and all forms of property have been liable since 1894. Capital returned for this purpose is classified according to the size of the estate, with the number of estates and amount of capital in each range; according to the category of wealth (Personalty, Realty, Stock Exchange Securities, Cash, Land, etc.), with the amount in each range; for the year 1921-22 according to the sex of the decedents; and for four pre-war years and the post-war year 1920-21, according to the age of the decedents, with the number of estates and amount of capital in each range and in each age group.

The proportion of the total capital in individual hands that passes by death or by gifts *inter vivos* within three years of death, and is returned each year, is slightly over 3 per cent.,* and the capital in the hands of the living may be estimated by multiplying by 30 the capital left in any year. As the method by which it is calculated clearly shows, however, this multiplier cannot be applied to the amount of Estate Duty capital *in any range* to give the amount of capital held by the living in estates within that range—*e.g.*, we cannot infer from the fact that £14,000,000 paid Estate Duty in 1912-13 on estates of £75,000 to £100,000 value that there was £14,000,000 × 30 = £420,000,000 capital held in estates of £75,000 to £100,000 by the living in that year. Estates tend to grow in size with each year, or at any rate decade, of the holder's life; in the three pre-war years, for example, of 21 estates of over a million notified to the Inland Revenue Department, not one was left by a decedent under 55. On the other hand, the death-rate grows and the ratio of living to decedents diminishes as age advances; for every

* *Cf.* Mallet and Strut, *Statistical Journal*, July, 1915.

person dying in 1911 between the ages of 20 and 25, there were 286 living, for every person dying above the age of 85 there were four persons living. Large estates, therefore, will form a smaller proportion of all estates among the living than they do among the estates left in any year by decedents and entered in the Estate Duty returns; smaller estates will form a larger proportion.

In order to get the probable distribution of estates among the living, it is necessary to take the number and aggregate value of the estates of decedents *in each range in each age group* and multiply them by the ratio of living to decedents in that age group—*i.e.*, by the reciprocal of the death-rate for that age group.

The results of the lengthy calculations involved in this process are summarised in my first table. The figures refer to England and Wales only. They are based on averages of the three years 1911-12, 1912-13, and 1913-14. The death-rates taken to calculate the ratio of living to decedents by Sir Bernard Mallet, from whom I have taken this method, are the death-rates, not of the population as a whole (except in the case of the age group 15-19), but of males in certain occupations of a clerical and professional character, adopted on the ground that the death-rate is likely to be lower (and therefore the ratio of living to decedents higher) among property owners than in the population generally, and this "class" death-rate was the nearest figure available to a property owners' death-rate. I have adopted this class death-rate for estates over £500 value, but for estates under that figure I have used the average of the general death-rate for each age group in the three pre-war years. I have left out of the tables estates of decedents under the age of 15: the number in 1913-14 was only 20 out of 60,000, and their aggregate value £13,500 out of £345,000,000. I give similar figures, later, for a post-war year; but these are less reliable because the necessary data are available for only a single year. Since my object, however, is to get at the proportional distribution, rather than the absolute amounts, of capital, these pre-war figures will serve.

Table I, though giving as precise an indication as is possible of the distribution of capital, must not be taken too

TABLE I.—ESTIMATED DISTRIBUTION OF CAPITAL ABOVE ESTATE DUTY LIMIT.
ENGLAND AND WALES, 1912.

Range.	*Number.*	*Amount.*
£		Million £
Under 500	1,401,114	381,517
500–1,000	453,954	285,135
1,000–5,000	439,012	1,046,014
5,000–10,000	80,913	622,195
10,000–20,000	49,401	719,468
20,000–25,000	8,760	212,362
25,000–40,000	14,051	470,079
40,000–50,000	4,051	294,858
50,000–70,000	6,667	308,374
70,000–75,000	777	48,954
75,000–100,000	2,447	227,345
100,000–150,000	2,530	361,069
150,000–200,000	1,231	191,711
200,000–250,000	822	92,434
250,000–400,000	485	217,961
400,000–500,000	265	127,289
500,000–600,000	149	46,145
600,000–750,000	213	163,204
750,000–800,000	22	14,054
800,000–1,000,000	47	80,373
Over 1,000,000	124	215,871
Total	2,467,035	6,126,412

NOTE.—An estate may be classified as falling within a given range in the year in which it is notified, and then, in a subsequent year, when a more careful valuation has been completed, the capital in it be transferred to a different range. For this and other reasons there is not an exact correspondence between the numbers and amounts in each range in each year, and it is necessary, before using the figures, to aggregate them into a smaller number of larger ranges, in which transfers of this kind may be expected to compensate for one another.

literally. The number of estates in the higher ranges passing at death is too small to provide a reliable sample. Twenty-one estates of over a million fell in the three years taken, or 7 a year, as against an average of 7·3 in the preceding 10 years and of 10·3 in the 9 succeeding years. Again, if the death-rate is appreciably lower among the very rich than the rates taken, the multiplier should be larger; and millionaires seem to be long-lived. Gifts *inter vivos*, made to avoid payment of Estate Duty, are popularly supposed to make

the returns for Estate Duty purposes an unreliable index of capital accumulations; to the extent, however, that these deplete the estates in the higher age groups, they must swell the estates in the lower age groups, and the latter, if they appear less frequently in the Estate Duty tables, are, when they do appear, multiplied by a correspondingly large multiplier, since the ratio of living to decedents is higher. Comparing one year with another, range by range and age group by age group, variations are not great; and the numbers and amounts in each range of estates probably represent pretty accurately the proportions in which capital is distributed in estates liable to Estate Duty.

Estate Duty, however, is payable only on estates of a net value of £100. We have, therefore, so far estimated only the numbers and property of persons above this limit. It may well be doubted whether the statistics represent all above this limit. Several possibilities, by which capital accumulations of £100 or a little more may escape record, suggest themselves. The chief constituent elements of small estates —furniture, tools, personal effects—are difficult to value and may be under-valued for probate; small estates, even when liable, may easily evade taxation, and such evasion is of little fiscal importance; distribution *inter vivos*, which, in this case, will have the effect, not of transferring an estate from a higher to a lower category, but of removing it from the statistics altogether, is likely to be common; and a large and important part of the accumulations of the wage-earning class is in the form of Friendly Society, Trade Union, and other collective funds, which are not attributable to any individual estate. We may reasonably hesitate, therefore, to accept the figure of $2\frac{1}{2}$ million as the maximum number of persons possessed of wealth in England and Wales to the value of as much as £100 before the war.

At the same time, I do not think the actual figure can be much larger. A home might have cost more than £100 to furnish, but how many working-class homes would have fetched more than £20, if sold up, before the war? And although the number of accounts and aggregate amounts in Savings Banks and similar institutions were, as I shall show in a moment, large, the average deposit in P.O. Savings Banks

was only £20, and I suspect that the " saving " men in the wage-earning class were most of them included in our figure of $2\frac{1}{2}$ million.

We have then to estimate the amount of accumulated wealth in the hands of persons with less than £100 and the numbers of such persons, in order to complete our estimate of the distribution of capital. What is involved is (*a*) an estimate, necessarily very rough, of the value of the furniture, tools, and personal effects of the persons who do not, when they die, leave £100 or more, and of those whose estates escape assessment, although they reach that figure; and (*b*) a summing-up of the collective savings in Savings Banks and Provident Societies of the non-propertied classes, with some consideration of the amount that should be deducted, as already reckoned in the Estate Duty statistics.

Some guide as to the value of the furniture may be found in the probate valuation of furniture, etc., in the small estates over £100; the averages per estate for the three classes under £500 were £38, £22, and £14 respectively. Again, some correspondence may be assumed between value of furniture and rental of house; the 612,000 estates over £1,000 may be taken to correspond with the 558,000 premises assessed to House Duty in 1912-13 over £40, the owners of the small estates between £100 and £1,000 would occupy all the £21 to £40 premises, and a half of the £15 to £20 houses; therefore the estates under £100 probate value correspond with the remaining 350,000 houses of £15 to £20 rental, 1,993,000 houses of £10 to £15 rental, 2,667,000 houses of under £10 rental, and 81,000 " separate dwellings " under £20 rental. Allowing £22 of furniture each to the £15 to £20 houses, £14 to the £10 to £15 houses, and £10 to the rest, we get a total in round figures of £65,000,000. In addition, we can attribute tools, etc., to a value of £10 apiece to something under a million mechanics and persons working on their own account who are not likely to come into the probate statistics.

The collective savings of the poor I give summarily in the following Table II. It is a matter of opinion what should be included, and I have aimed at being comprehensive rather than exclusive. Roughly, the funds are arranged in order of their approximation to the character of the capital

TABLE II.—WORKING-CLASS SAVINGS, 1912.

No. of Accounts or Members.		*Amount.*
		Million
12,751,000	Savings Banks Deposits: Post Office ..	182
1,870,000	Trustee	54
4,000	Railway	7
	Savings Banks National Debt Stock held for Depositors	29
	Building Societies: total of liabilities to Shareholders, Depositors and other Creditors, reserve and profit	62·5
2,919,000	Industrial Co-operative Societies: total of Share and Loan Capital and Reserve ..	56·5
	Industrial Co-operative Societies: profit and interest for year	13·8
15,681,000	Registered Friendly Societies	67
4,191,000	Including Ordinary Friendly Societies 23	
3,006,000	„ Orders and Branches .. 29·8	
7,753,000	„ Collecting Societies .. 11	
4,000,000	Trade Unions' Funds at £2 10s. a member ..	10
	National Health Insurance Fund: balance	15·5
	Unemployment Insurance Fund: balance ..	1·5
35,475,000	Industrial Life Insurance Co.: Life Fund (1911)	48
	Total for United Kingdom	546
	England and Wales: (5/6)	455

previously considered. Savings banks deposits are property held individually with complete freedom of disposal. Building Society liabilities belong to the same category. Friendly Society funds are property held for the use and benefit of individuals, but not held individually. If Friendly Society funds should be included in the total of working-class savings, then other insurance funds cannot be excluded; equally these represent the savings of the working-classes, and, if not held individually, give individuals a right to certain benefits on which a capital value can be placed. What this capital value should actually be is difficult to measure; but the figures given will serve as a rough measure. The Life Fund of Industrial Insurance societies was only three years' purchase of the premium income; but considerably more

than half the premium income was absorbed in commission, expenses and dividends, and considerably more than half the policies taken out lapsed without surrender value. The figures refer to the end of 1912, unless otherwise stated, and to the United Kingdom.

This aggregate of collective savings of £540,000,000 is subject to reduction: (1) it relates to the United Kingdom, while our other figures relate to England and Wales; (2) it includes some savings and interests of middle-class persons represented in the probate statistics. I have corrected it under the first head by allocating to England and Wales the items in relation to which the divisions of the United Kingdom are obtainable separately, and the same proportion of items not differentiated, viz., five-sixths. The second correction can be only rough. Included in our class of Small Estates are estates of less than £300 gross; by the method we have used these should amount among living persons to £155,000,000. In the probate returns two-fifths of this smallest class consists of cash in house and at bank and policies of insurance; two-fifths of £155,000,000 is £62,000,000, and this sum I propose to deduct from the aggregate of collective savings for England and Wales.

Adding together our estimates for furniture and tools and this aggregate of collective savings, we get a total of £470,000,000 in round numbers as the capital in estates of less than £100 probate value in England and Wales.

Our next question is, to how many persons is this aggregate attributable? What is the total number of persons, capable of owning property, with which we can compare the number indicated by the probate statistics as owning more than £100? It has been customary to take the number of persons over 25 years of age, on the ground that the number of persons under that age owning property is unimportant. We have excluded from consideration the few estates belonging to persons under 15; I do not think we should exclude persons between 15 and 25. The majority of the population enter the economic system as active agents, earning incomes, at 14 or 15. Our decision will depend on the purpose we have in view; for some purposes the best figure to take would be the number of households, but this we cannot get. I propose

to take the number of incomes, which is not very different from the number of occupied persons over the age of 15, but considerably less than the number of persons, occupied and unoccupied, over 25. The number of persons over 15 who returned themselves at the 1911 census for England and Wales as occupied was 15,781,911; to whom should be added those who returned themselves as unoccupied and living on private means 348,146, and pensioners (other than Old Age pensioners) 78,331; giving a total of 16,208,388 incomes. This, it seems to me, is the number with which our estimate of about $2\frac{1}{2}$ million owners of £100 or more should be compared; and the difference between the two, 13,741,353, or $13\frac{3}{4}$ millions, is the number to whom our aggregate of capital under Estate Duty level, £472,000,000, should be attributed. It should be remembered that an income does not represent a household; on Professor Bowley's sample investigation of five towns in 1913, there were 1·9 incomes and 2·4 dependents per household.

I wish now to bring together the results of this tedious discussion, in a form in which they can be used for purposes of comparison, and then to make certain comparisons. First, in Table III., I bring together the distribution of capital.

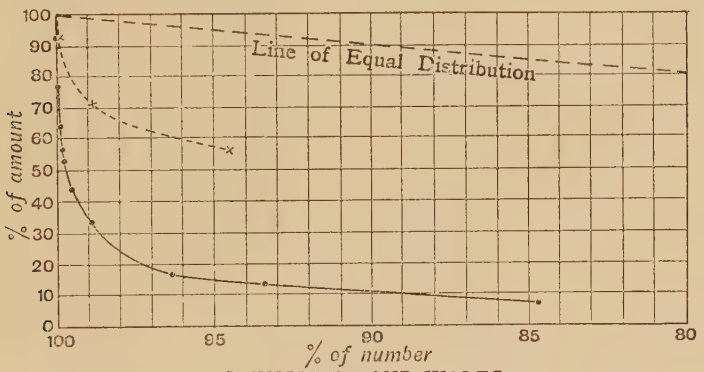
I show also the cumulative percentages of numbers and amounts of capital, reckoning from the lowest estates upwards. These are plotted against each other in my first diagram; the percentage of persons is measured on the horizontal scale from the right, the percentage of the total capital possessed by each percentage of persons on the vertical scale upwards. A very large horizontal scale—10 times the vertical scale—is used in order to render possible the representation of the very small percentages of rich persons.

It will be seen that an equal distribution of capital among persons would give the distribution curve the form of a straight line, 10 per cent. of persons would own 10 per cent. of the capital, 20 per cent. would own 20 per cent., and so on. Therefore, the degree of divergence from the straight line joining the extreme points of the two scales is a measure and graphic representation of the degree of inequality of

distribution. Moreover, having reduced persons and amounts to percentages, we can now make comparisons with other distributions, irrespective of the absolute numbers and amounts involved.

TABLE III.—ESTIMATED DISTRIBUTION OF CAPITAL. ENGLAND AND WALES, 1912.

Range.	*No.*	*Amount.*	*Cumulative Percentages.*	
			No.	*Amount.*
£		Million £		
Under 100 ..	13,741,000	470	84·8	7·1
100–500.. ..	1,401,000	382	93·4	12·9
500–1,000 ..	454,000	285	96·2	17·22
1,000–5,000 ..	439,000	1,046	98·9	33·12
5,000–25,000 ..	139,000	1,554	99	56·67
25,000–100,000	28,00	1,349		
100,000–500,000	5,330	990	100·0	100·00
Over 500,000 ..	550	520		
Total ..	16,208,400	6,600		



I. ENGLAND AND WALES
DISTRIBUTION OF CAPITAL (1912) —•— and INCOME (1910) —x—

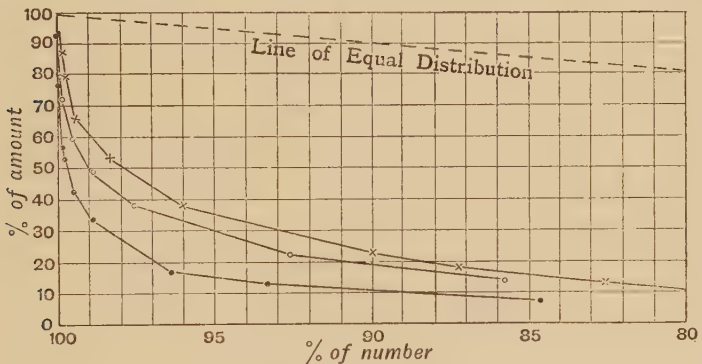
Let us first compare the distribution of capital with the distribution of income. We have not the data for an accurate estimate of the national income of England and Wales as distinct from the United Kingdom; but the proportional distribution is not likely to be materially different. Professor Bowley's estimate for 1910 is as follows:

TABLE IV.

	No.	Amount.	No.		Amount.	
			Per Cent.	Cumulative Per Cent.	Per Cent.	Cumulative Per Cent.
		Million £				
Wages	14,500,000	720	74·2	—	39	—
Intermediate Income (not wages, but under £160)	4,050,000	335	20·3	94·5	18	56
Incomes assessed to Income Tax:						
£160–£700 ..	880,000	250	4·4	98·9	15	71
£700–£5,000 ..	200,000	415	1·0	99·9	22	92
Over £5,000 ..	12,000	150	·06	100·0	8	100

This income distribution table is not quite comparable with our capital distribution table, since there is no means of placing the incomes in the intermediate and wage classes in order of magnitude. We can, however, deduce the rough relationship of the two distributions; 94·5 per cent. of persons have 56 per cent. of the national income, while 96·2 per cent. of persons have only 17·22 per cent. of the national capital; 98·9 per cent. of persons have 71 per cent. of income, while the same percentage of persons have only 33 per cent. of capital. The relation may be carried a little further. Allowing for the difference in the area covered and the slightly earlier date of the income figures, the number of incomes above the income-tax-exemption limit corresponds fairly closely with our estimated number of estates over £500; incomes between £160 and £700 are about as numerous as estates between £500 and £5,000; super-tax incomes (over £5,000) correspond with estates of £50,000 and upwards, which suggests that a considerable proportion of super-tax incomes are "earned"; while our class of Small Estates of £100 to £500 may be taken to correspond with certain incomes in the intermediate class, incomes below the old exemption limit, but not wages—the income, namely, of small farmers, shopkeepers, artisans and dealers working on their own account, who numbered 1,905,000 (including 500,000 small farmers in Ireland) out of the 4,000,000 in the class.

Before attempting any international comparisons, it may be interesting to look at the composition of estates in the different ranges. For this purpose the sample of estates offered by the probate statistics may be relied on. The composition varies with the range. In the smallest range, estates not exceeding £300 gross, the most important component is cash, followed closely by house and business premises. In the other two ranges of Small Estates, £300 to £500 gross and £100 to £500 net, house and business premises is the most important component, as it is in all estates up to £5,000 in all three pre-war years. In all estates above that magnitude, stocks and shares are the most important component. Mortgages are an important item in the same ranges of estates as stocks and shares, except the highest ranges above £750,000; policies of insurance in all ranges of estates between £100 net and £70,000. House and business premises are important in all ranges under a million; agricultural land does not seem to be predominant in any particular range.



II. DISTRIBUTION OF CAPITAL

England (1912 —•—•—
Prussia (1908) —o—o—
Australia (1915) —x—x—

Comparisons with other countries are difficult to make, because, incomplete as are our data, they are more complete than those afforded by most countries for an estimate of the distribution of capital. A direct comparison can, however, be made with Prussia, where the distribution of capital can be inferred from the Property Tax, and with Australia, where a

census of capital was taken in 1915. The Prussian figures, taken from King, and the Australian figures, from Knibbs, are given in the following Tables, V. and VI., and the distribution compared with ours by a cumulative percentage graph in Diagram II. on p. 293.

TABLE V.—DISTRIBUTION OF CAPITAL.
PRUSSIA, 1908.

Range.	*No.*	*Capital.*	*Cumulative Percentage.*	
			Persons.	*Capital.*
Marks.		Million Marks.		
Under 6,000 ..	10,994,000	15	85·88	13·76
6,000–20,000 ..	871,000	9	92·684	22·02
20,000–52,000 ..	627,000	18	97·581	38·53
52,000–100,000 ..	169,000	12	98·901	49·54
100,000–200,000 ..	77,900	11	99·509	59·63
200,000–500,000 ..	42,200	13	99·839	71·56
500,000–1,000,000	12,749	9	99·939	79·82
1,000,000–5,000,000	7,213	14	99·995	92·66
Over 5,000,000 ..	662	8	100·000	100·00

TABLE VI.—DISTRIBUTION OF CAPITAL.
AUSTRALIA, 1915.

Range.	*No.*	*Capital.*	*Cumulative Percentage.*	
			Persons.	*Capital.*
£		Million £		
Nil and in debt ..	360,000	Nil.	16·4	00·0
Under 100 ..	925,000	28	58·7	2·3
100–250	315,000	50	73·0	6·1
250–500	212,000	75	82·6	12·3
500–750	102,000	62	87·28	17·4
750–1,000 ..	60,000	51	90·03	21·6
1,000–2,500 ..	129,000	201	95·98	38·3
2,500–5,000 ..	50,000	175	98·28	52·6
5,000–10,000 ..	23,000	161	99·33	65·8
10,000–25,000 ..	11,200	166	99·7621	79·55
25,000–50,000 ..	2,600	88	99·8355	86·8
50,000–100,000 ..	975	68	99·9865	92·4
Over 100,000 ..	466	92	100·0000	100·0
All	2,192,000	1,216	—	—

Dr. King, in his pioneer study of the distribution of wealth,* compared the distribution of British estates at death as shown by probate statistics with a similar Massachusetts distribution and with the Prussian distribution shown by the Property Tax. He attributed the greater inequality of distribution in Britain to the law of primogeniture. By our method of comparing the distribution of estates among the living with the Prussian distribution, the contrast is heightened. The law of primogeniture, however, probably has no influence, and the custom of primogeniture a diminishing influence, on distribution, but Dr. King's comparison of Britain and Massachusetts was valid, since estates *at death* were compared with estates *at death*. A similar comparison can be made with France, where legally all estates are liable to pay succession duty and therefore to be recorded. The Massachusetts and French figures are given in King, and need not be reproduced here; they must not be taken as representing distribution among the living, but only as a basis for comparison with similar statistics in other countries. The comparison is subject to error in so far as either the distribution of capital among the different age groups, or the ratio of living to decedents, varies from country to country. In the case of France what evidence there is points to the fact that estates do not continue to increase in size as the average age of the holder increases, but reach their maximum in the age group 50-60 and then decline; this would make the inequality in the distribution of capital even less, as compared with Britain, than the probate figures suggest.

The number, though not the amount, of living holders of property can be estimated for France, because in 1906 the number of decedents at each age was given. Using the method adopted before, we get the high proportion of 12,849,000 owners of property in a population of 21,878,000 persons aged 25 and upwards, or nearly 60 per cent. In the high age groups the proportion is higher, 74 per cent. in the age group 60 to 70. But the majority of these properties are extremely small, and are revealed to us only because the Estate Duty is levied on all estates above the value of

* Wealth and Income of the United States.

one franc! An interesting point is brought out by a comparison between the number of decedents and the number of successors, which are given separately; the latter is greater, and the disparity is greater the smaller the estate. This is due to the combined effect of the law compelling the division of estates among children and the larger number of children in the families of the poor; it tends to make the disparity of fortunes greater.

TABLE VII.—DISTRIBUTION OF CAPITAL AT DEATH. ENGLAND AND WALES AND IRELAND; THREE YEARS, 1911–13. CUMULATIVE PERCENTAGES.

Range.	*England and Wales.*		*Ireland.*	
	Persons.	*Capital.*	*Persons.*	*Capital.*
£				
Under 100 ..	83	3	86·00	7·2
,, 300 gross	87	4·4	91·80	11·2
,, 500 ,,	90	5·7	93·81	14·2
,, 500 net ..	91	6·6	94·92	16·0
,, 1,000 ..	94	9·8	96·58	21·0
,, 5,000 ..	98	23·25	98·30	39·4
,, 25,000 ..	99·57	48·0	98·86	68·4
,, 100,000 ..	99·97	78·6	99·97	89·8
All	100·00	100·0	100·00	100·0

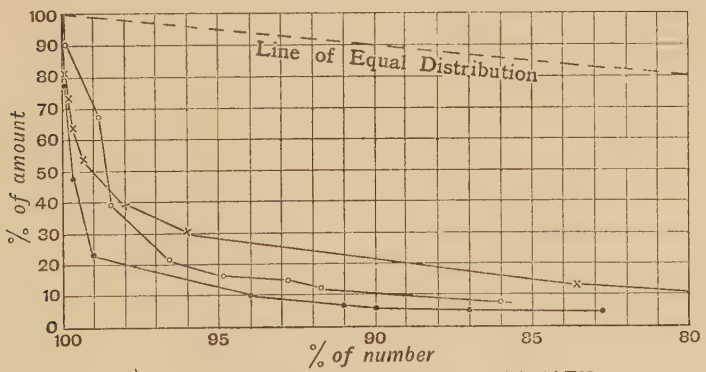
A similar difference between England and Ireland is brought out in Table VII., in which the percentage distribution of estates returned for probate in the three years 1911-14, with an allowance, based on Table III., for estates below the Estate Duty limit, is shown. It is clear that Ireland is more like France and Massachusetts than England. Some of the larger Irish estates will be proved and taxed in England. An explanation of the contrast may be found in the less importance of agriculture and smaller number of agricultural landowners in England and Wales. The following Table, VIII., brings together some figures illustrating this difference. The difference between England and Ireland is, of course, directly due to the Land Purchase Acts, and is greater to-day than in 1914, since purchase has come nearer to completion.

There remains one further comparison I should like to make, a comparison of the distribution of capital at different

periods. Unfortunately, the data are lacking, and I am restricted to comparisons with a single post-war year. In the following table the distribution for 1920-21 is compared with that for the three pre-war years. In calculating the 1920-21 estimate, I have used the death-rates of the whole population in the different age groups, not the special class death-rate, used in the pre-war calculation, which is not available for a post-war year, and I have assumed a distribution of estates between the sexes similar to that given for the year 1921-22 in the Sixty-fifth Report of the Inland Revenue Commissioners.

TABLE VIII.—AGRICULTURE AND OWNERSHIP.

		No. of Agricultural Holdings.	*No. of Occupying Owners.*	*Total No. Engaged in Agriculture.*	*Total Population.*
England and Wales	1913	436,000	49,000	1,260,000	37,338,000
England and Wales	1921	415,000	70,000	1,254,000	37,885,000
Scotland	1913	77,000	5,600	227,000	4,760,000
Ireland	1913	566,000*	349,000	876,000	4,390,000
France	1908	5,505,000	2,200,000†	8,777,000	39,250,000
Germany	1907	5,736,000	5,250,000	15,000,000	67,000,000
U.S.A.	1920	6,445,000	3,925,000	10,953,000	107,438,000



III. DISTRIBUTION OF CAPITAL AT DEATH

England (1911-1913) —•—•—
Ireland (1911-1913) —○—○—
France (1909) —×—×—

* 102,000 under one acre.

† Not including 3,058,000 part owners.

I give separately the details of the collective savings of the working-class.

TABLE IX.—WORKING-CLASS SAVINGS, 1921.

No. of Members or Accounts.		*Amount.*
		Million £.
16,000,000	Savings Banks Deposits: Post Office ..	264
1,425,000	Trustee	73
	Special Investment Dept. (1920) ..	16
124,800	Railway	11
	Savings Banks Stock held for Depositors ..	29
789,000	Building Societies (England and Wales): liabilities in shares, deposits, reserve and profit	93
551,600	Industrial Co-operative Societies in Great Britain: share and loan capital and reserve (1922)	127
	Industrial Co-operative Societies in Great Britain: profit	15
21,200,000	Registered Friendly Societies (Great Britain)	92
4,401,000	Including: Ordinary Friendly Societies 34·75	
3,057,000	Orders and Branches .. 35·5	
13,512,000	Collecting Societies .. 20·0	
6,613,000	Trade Unions: funds at end of year ..	16
	National Health Insurance Fund (England and Wales): balance	83
	Unemployment Insurance Fund: balance (deficit)	—7·6
	Industrial Life Insurance: Life Fund ..	89·5
	Savings Certificates: one-half net subscriptions outstanding March, 1922	171·1
	Total	1072
	Proportion to England and Wales	940

One new item of importance presents a difficulty, that of Savings Certificates. We cannot assume that the whole, or anything like the whole, is held by persons below the Estate Duty, or even the income tax, exemption limit. I have followed the Montagu Committee, who estimate that at least half the Certificates outstanding were subscribed by "small investors" who do not invest in the ordinary channels. Certificates for £25 and less form well over half the amount outstanding. This form of saving, whatever it amounts to, is a very significant development. For the

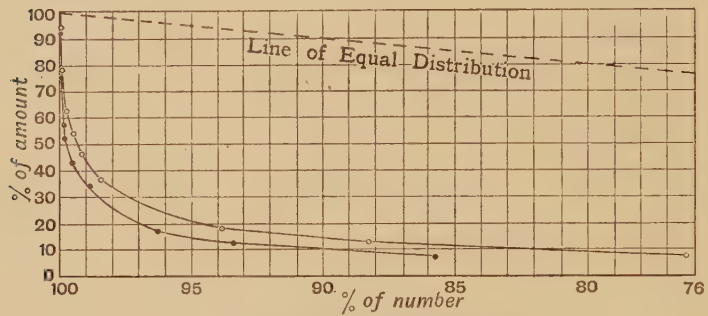
first time we have an extensive holding of securities by wage-earners; the securities are specially adapted to them, but other securities might also be adopted. The sales of War Loan, Exchequer Bonds, Victory and Funding Loan through the Post Office and Trustee Savings Banks amounted to £222,000,000. In the United States a campaign similar to our War Savings campaign was organised during the war, and was so successful that dealers in Stock Exchange securities carried it on, for the sale of other than Government securities, after the war. A careful estimate places the increase of holders of securities in the U.S.A. at from 4,400,000 in 1900 to 14,400,000 in 1924. Deposits in Savings Banks and policies of insurance increased in number and amount in the period, so that the increase of stock-holding is not a mere transfer from one form of saving to another.

TABLE X.—ASSUMED DISTRIBUTION OF CAPITAL. ENGLAND AND WALES, 1920–21.

Range.	*No.*	*Amount.*	*Cumulative Percentages.*	
			No.	*Amount.*
£		Million £		
Under 100 ..	13,500,000	912	76·26	7·6
100–500 gross ..	2,099,700	546	88·12	12·2
100–1,000 net ..	1,026,200	746	93·91	18·5
1,000–5,000 ..	791,500	2,046	98·38	35·7
5,000–25,000 ..	236,900	3,078	99·72	61·5
25,000–100,000 ..	41,180	2,079	} 100·00	100·0
100,000–500,000	7,100	1,785		
Over 500,000 ..	537	670		
All	17,702,000	11,860		

From the £940,000,000, which is the aggregate for England and Wales, I have deducted £198,000,000 as the estimated amount of savings in small estates under £500, already allowed for in our estimate of estates over the Estate Duty limit; I have added £170,000,000, or double the pre-war estimate as the value of furniture, personal effects and tools; getting a total of £912,000,000 as the post-war aggregate of capitals under the Estate Duty limit. The post-war number of incomes, calculated in the same way as our pre-war total,

is 17,702,000; of these, 4,203,000 are already accounted for in our estimate of capital over £100; thus 13,500,000 is the number of persons to whom the £912,000,000 is to be attributed.



IV. ENGLAND AND WALES
DISTRIBUTION OF CAPITAL
(1912) —•—•—
and (1920) —○—○—

Two slight corrections can still be made in our calculations which do not, however, affect the validity of the comparisons based upon them:

1. In Table I. and the later tables based upon it, and similarly in Table X., no account is taken of estates in the Estate Duty returns in respect of which the age of the decedent is not disclosed. These may, perhaps, be allowed for by applying to the number and amount in each range a multiplier appropriate to the average age at death of decedents in that range whose age at death was disclosed. The result is as follows:

TABLE XI.

Range.	1912–13.			1920–21.		
	Multiplier.	*No.*	*Amount.*	*Multiplier.*	*No.*	*Amount.*
£			£			£
100–500	30	27,300	12,000,000	70	78,050	2,053,000
500–1,000	36	11,520	15,120,000	—	—	—
100–1,000	—	—	—	34	25,700	18,078,000
1,000–5,000 ..	20	10,000	40,000,000	35	27,475	70,000,000
5,000–25,000 ..	17	4,675	73,610,000	20	7,820	86,000,000
Over 25,000 ..	37	2,841	257,000,000	20	—	—

If these estimated numbers and amounts are included in the estimates of the distribution of capital given in Tables III. and X., we get the following result:

TABLE XII.

Range.	1912–13.		1920–21.		*Cumulative Percentages.* 1912–13.		1920–21.	
	No.	*Amt.*	*No.*	*Amt.*	*No.*	*Amt.*	*No.*	*Amt.*
£		Million £		Million £				
Under 100 ..	13,684,000	470	13,360,000	912	84·4	6·8	75·4	7·6
100–500 net (1912) / 100–500 gross (1920)	1,428,000	394	2,177,750	548	93·2	12·4	87·7	12·1
500–1,000 (1912) / 100–1,000 (1920)	465,500	300	1,051,900	764	96·1	16·6	93·7	18·4
1,000–5,000 ..	449,000	1,086	818,975	2,116	98·9	32·2	98·3	36·0
5,000–25,000 ..	144,000	1,628	244,720	3,164	99·8	55·7	99·7	62·3
Over 25,000 ..	37,720	3,085	48,817	4,534	100·0	100·0	100·0	100·0
Total ..	16,208,400	6,966	17,702,000	12,038				

NOTE.—Estates of a net value of £100–£500 are included with other estates below £500 in 1912–13, but with estates under £1,000 net value in 1920–21.

2. There are considerable accumulations of capital, which are private property but not in individual ownership, of which the Estate Duty statistics give no indication; examples are the reserves of Life Insurance societies in excess of the amount required to meet claims and pay declared bonuses, concealed assets of Joint Stock Companies which are not fully represented in the Stock Exchange quotations of their stock, property of clubs and societies. These should be added, probably in the main, to the estimated amount of the capital in the hands of persons in the higher ranges of fortunes. Unfortunately, there is no way of estimating their amount. Perhaps they may be taken to offset the capital of the poorer classes which also escapes estimate as a result of either evasion of Estate Duty or undervaluation for Estate Duty purposes.

In the final diagram the estimated post-war distribution

of capital is compared with the pre-war distribution. The change revealed is, to me at any rate, striking and unexpected. The number of estates over £100 probate value has gone up roughly in proportion to the rise in prices; this we might expect, and likewise the corresponding increase in aggregate capital shown. What surprises me is the slight fall in numbers and the considerable fall in the percentage of total capital, in the highest range, over £500,000. This may be an accident of the figures for the particular year; though, comparing the two tables as a whole, we notice a distinct change, in the direction of a lessening of inequality, in the distribution. On the other hand, the returns of incomes for purposes of super-tax suggest a movement in the opposite direction, and certainly seem to negate any inference of greater equality.

The change is not to be explained by the slight difference in the method used to make the post-war estimate; the multipliers used were slightly increased by distinguishing estates left by women from estates left by men; but the influence of this difference was counteracted by the use of ordinary death-rates instead of a selected class death-rate. A comparison of the two tables suggests certain possible explanations. First, the estimated number of persons below the Estate Duty exemption limit is both absolutely and relatively smaller than before the war, but the proportion of the national capital held by them is larger, but this estimate is unfortunately the one about which we can be least certain. Probably, however, a part of the large earnings of the war period were saved. In the second place, the proportion held by each of the groups up to the £25,000 mark has increased. This may be due to the increase in the proportion of the population between the ages 35 and 54, in which estates of £1,000 to £25,000 are most common. While population aged 15 and upwards increased 9 per cent. between 1911 and 1921, population between 35 and 54 increased 16 per cent.; this affected the death-rates and, therefore, our multipliers; the biggest increases of capital were in the age groups 35 to 44 and 45 to 54, and the range of estates £1,000 to £5,000. A third possible explanation is the higher rate of interest, which result in a lowered capital value put

on most investments; the holder is no worse off, unless his investments have to be realised, but for probate purposes they are valued at realisation value. This change would affect the larger estates differentially since they have the larger proportion of Stock Exchange securities. Thus the proportions in which capital was distributed might change, while the proportions in which income was distributed did not change. Making all allowances, however, the change is striking, and, so far as it cannot be explained away, suggests that high progressive taxation is having an effect on the distribution of capital; large fortunes do not accumulate so rapidly as they did, and even decumulate, while small savings accumulate untouched.

Sir Josiah Stamp has compared the probable post-war distribution of the product of industry with the pre-war distribution, and finds a similar change in the direction of slightly less inequality. It would seem as if war and post-war profiteers made their exceptional gains at the expense, not of the poor, but of other members of the same economic class. This is consistent with the change in the economic position of different sections of the rich and well-to-do classes; owners of land and fixed interest securities, on the whole, lost by the twofold process of monetary depreciation and national debt inflation, while receivers of profits benefited. Both classes, however, are affected by the increased direct taxation. The National Debt is a charge on the capital in the possession of the individuals forming the nation, just as real as a mortgage or debenture charge. When this annual charge of £350,000,000, which falls mainly on the larger estates, is taken into account, a much more considerable change in the distribution of wealth is revealed.

My object in this paper has been to collect the available facts on an interesting topic, and to extract from them as much information as I could, without attempting to discuss their significance. I may be permitted, perhaps, in conclusion, to indicate very briefly some of the inferences to which they point.

Capital in this country is much more concentrated than income, and much more concentrated than it is in any other country. This concentration is connected with the fact that

agriculture, and other economic activities in which small-scale enterprise predominates, are a smaller part of the country's economic activity than it is anywhere else. Moreover, this country is unique, I think, in having the tenant farmer rather than the owner-occupier, as the predominant class in agriculture; Ireland in this respect is continental in character, rather than British. The wage-earning proletariat, which is much the largest economic class in the country, has little capital, although its standard of life is high compared with that of most continental wage-earners and peasant proprietors. It has some accumulations of capital; these are mainly in the form of mutual insurance funds. If I were a capitalist, I should feel a little insecure about my capital, since a capital levy on all estates over £1,000 would leave 95 per cent. of the electorate untouched; I must not, however, be understood as advocating such a levy. I had no contemporary problems of party politics in mind when I selected this investigation for my presidential address to you; my sole purpose was to discover how far in this country we had forgotten the principle that Bacon expressed in the phrase: " Property is like muck; it is good only if it be spread." My figures suggest that we have completely forgotten that principle.

XIV

A WORD FOR "LAISSEZ FAIRE"*

In recent elections an increasing number of Liberals have felt themselves compelled to vote for the Labour Party; others have supported Coalition and Conservative candidates. The result has been an eclipse of the historic Liberal Party in Parliament and the elevation of a Socialist Labour Party to the position of His Majesty's Opposition. In the country the party survives; it possesses the externals of political life —party funds, a party machine, and the traditional loyalty of unreflecting adherents. It possesses in addition an active element that can find neither rest for its spirit nor scope for its ambitions in either of the alternative parties. This active minority is busying itself with the elaboration of a social programme by which it hopes to recapture the sympathies of democratic electors. The results so far have not been altogether happy; the instalments of the programme have been marked by a series of secessions, which excite doubts about the essential unity which it is a principal object of the programme to demonstrate. If the Liberal Party is worth saving, therefore, it may save time in the long run to give a little more consideration to the elucidation of the Liberal principles about which Liberal leaders are so vaguely eloquent, and postpone for the moment the concrete proposals which some of them are so anxious to define. And a starting-point for such consideration may be found in the reflection that, if the Liberal Party does not survive, the electorate will have no other alternatives before it except a Conservative Party that is protectionist in principle, and a Labour Party that is socialist in principle.

The only possible basis of a distinctive Liberal economic policy is Free Trade. That is the only measure on which it is safe to assume that all Liberals are agreed, the only

* Reprinted from the *Hibbert Journal*, July, 1926.

doctrine that can fairly be used as a test of Liberal orthodoxy. It is, moreover, the only doctrine that Liberalism can claim as its peculiar possession. The Labour Party accepts Free Trade, but on grounds of expediency only. A party that in every field advocates the extension of Government enterprise is not in a position consistently to exclude Government from any part in the direction of foreign trade; as, to be fair, Mr. Wheatley and an important section of the party have pointed out. Similarly, the Conservative Party defers to the Free Trade prejudices of the industrial elector; but its leader resigned office in 1923 to assert his faith in Protection, and its approach to most economic problems assumes the postulates of Protectionist economics. But insular Free Trade by itself is not an economic policy; and the most sincere agreement on fiscal policy is compatible with widely divergent views on domestic policy. Is Free Trade, then, to be regarded only as an expedient? or is there implicit in it a principle capable of wider and more general application? The possibility of a distinctive economic policy, and, therefore, it is hardly too much to say, of a separate Liberal Party, rests on the belief that there is.

Free Trade, by its apparent defiance of the twin sentiments of kinship and neighbourhood, is the most emphatic assertion that can be made of the view that economic relations and political relations are best kept distinct. As citizens we are all members of some State, a community based on kinship and neighbourhood, with a political organisation for defining and protecting rights within its territory; as producers and consumers we are members of a different community, as real as the political community, an economic community, the organisation of which was neither established nor maintained by governments, and the boundaries of which do not coincide with those of any State. An imaginative grasp of this fundamental distinction was the great contribution to political progress of the school of *laissez faire*. The reformers of the first half of the nineteenth century opposed the policy of identifying the economic with the political community not only in external relations by Protection, but equally in internal relations by any socialistic reorganisation of industry. In the interests of good government and good

business alike, they sought to keep Government and business distinct. Liberalism has accepted from them the legacy of Free Trade; its attitude to the correlative policy of opposing a socialistic organisation of industry has never been clear. The tendency of Liberals to play with proposals for nationalising railways, coal and land, for controlling the export of capital, or monopolising the import of wheat, impresses the electorate less as a new economic gospel, born of independent conviction, than as an opportunist attempt to steal the Labour Party's thunder. The problem of Liberalism for a generation past has been to find a domestic policy, consistent in principle with Free Trade, that will satisfy the democratic sentiment of the new electorate; in other words, to reconcile the demand for economic democracy with the principles of *laissez faire*.

The doctrine of *laissez faire* has declined from the exalted position of a canon of economic orthodoxy to the level of a rather disreputable superstition, that you attribute to a political opponent whom you wish to discredit with a popular audience. It deserves the contempt into which it has fallen as little as the intolerant authority that it formerly enjoyed. The atomistic theory of society and the rationalistic conception of human nature, on which it was based, are properly discredited and superseded. But it was a policy more than a theory, and its practice was always better than the generalisations by which the policy was supported. It was the policy of the Liberal reformers, who had to face the first impact of modern industrialism, and it is entitled to the consideration that is always due to a first response to new conditions. The freedom which it claimed is valued no longer, only because the fight for it was successful. Freedom of enterprise—the freedom to experiment, to establish new economic relations, to prove capacity for work by doing the work—is an element in economic freedom that we undervalue today only because we have forgotten that it had to be fought for. As a principle of economic policy its essentials were simple; to keep the political and the economic organisation of society distinct; to develop international trade as a safeguard of international peace; and to rely on the social authority created by the economic organisation as a check

and a counterweight to the social authority, created by the political organisation, of politicians and civil servants. As contrasted with the Socialists, who believe that every ill can be cured by a sufficient concentration of authority, the early Liberals were the heirs of the Whigs; they distrusted any concentration of authority, and sought for checks and balances to prevent the abuse of necessary authority. Their appeal was to the plain man, who has no wish to impose his views on other people's lives, and in return does not want his life managed for him by interfering busybodies, who satisfy their vanity and greed of influence under specious pleas of public duty and social service. Lenin and Mussolini equally would have been anathema to them.

Laissez faire was discredited by mistakes which have eclipsed and overshadowed its achievements. The mistakes, however, have been revealed and corrected by experience; they offer no insuperable obstacle to a social policy embodying the advantages of free enterprise; but they need study in order to reveal the direction in which a policy of *laissez faire* must be supplemented. Briefly the errors were two: *laissez faire* confused free enterprise with unregulated enterprise, and mistook free competition for equal competition.*

Free enterprise is the essence of *laissez faire*. By releasing initiative and setting individuals free to make and remake the structure of industry and commerce by direct private contract, the reformers of the first half of the nineteenth century

* Adam Smith was not guilty of this confusion. His criticisms of Government interference with industry were directed entirely against Government attempts to *direct* industry—"a duty, in the attempt to perform which he [the sovereign] must always be exposed to innumerable delusions, and for the proper performance of which no human wisdom or knowledge could ever be sufficient; the duty of superintending the industry of private people, and of directing it towards the employments most suitable to the interest of the society." Where he has occasion to refer to the other type of interference, the regulation of conditions in order to protect the weak, he expresses approval. Thus he approves of the Truck Acts, and gives as the second of the three duties, to which the sovereign has to attend "according to the system of natural liberty"—"the duty of protecting, as far as possible, every member of the society from the injustice or oppression of every other member."

made possible a tenfold increase in wealth and a fourfold rise in real wages in the course of the century. But contracts do not cease to be free when society begins to regulate them, to attach conditions to its legal recognition of them; any more than matrimony ceases to be a matter of free choice, when the State enacts marriage laws, or the playing of games impossible when a Football Association or M.C.C. frames a code of rules. The Factory Acts left the essentials of free enterprise intact, since they left the *entrepreneur* free to choose his own field, his methods, materials and labour, and, subject to the general conditions imposed by the Acts, to build up the network of his economic relations by sale and purchase. The first need of a Liberal policy, therefore, is to recognise that private enterprise is only a means to an end, the building up and maintenance of an efficient economic organisation, and that it must and can be subjected, like any other social activity, to such regulations and conditions as society is agreed upon. Already the grosser forms of exploitation of poverty have been eliminated in this way; the further development of the industrial code must depend, not on the claims of profiteers, who always and naturally resist regulation, but on the extent to which the community is agreed on the social necessity of any regulation.

Two related confusions need to be cleared up. Socialists confuse this regulation of private enterprise with the supersession of private enterprise that is their peculiar aim. The two have nothing in common. Private enterprise is preferred because it is the more economical way of attaining the social end; if society is agreed on certain conditions that are to be observed, it can impose them as regulations on private enterprise. To substitute public enterprise is a cumbrous and uneconomic way of securing the conditions desired; if they are just they should be imposed; if they are practical, industry will adjust itself to them more economically under private than under public enterprise, since the relaxation of effort and obstruction of initiative that inevitably attend legal monopoly will be avoided. The other confusion is one to which Protectionists are prone. They see no difference between State interference with free

enterprise by Factory Acts and State interference by protective tariffs. The difference is that the latter restricts the area, while the former raises the plane of enterprise and competition. On the higher plane established by the industrial code, the scope for initiative and choice and the free determination of economic relations by purchase and sale is unimpaired; Protection, on the other hand, seeks to hamper imports in general and so tends to restrict the area and amount of commercial exchange. Recently attempts have been made to base claims to Protection on the ground that conditions are better and wages higher in England than among our competitors; by the same argument British goods should be excluded from American and Australian markets; while a consistent application of it would make trade between any two countries with differing standards impossible. A policy of prohibitions, designed to enforce the observance of international conventions on labour conditions, would be consistent with the principle of the Factory Acts, and should be supported by Liberals.

The lesson of the Factory Acts has been learned, and it is necessary to formulate it, only in order to encourage those Liberals who oppose as "interferences" the imposition on industry of regulations embodying the common conscience of the community, to seek another party—if they can find one. The confusion of free with equal competition has not been grasped. The fundamental defects of the modern industrial organization, and the root cause of industrial unrest, are economic inequality and subordination. The practice of *laissez faire*, by releasing initiative, has enormously exaggerated the results of human inequality, and done nothing to correct them.

Economic inequality is an evil because it offends the egalitarian sentiment of a democratic community. Men are not equal, and nobody thinks they are; but our social arrangements can be directed towards compensating for natural inequality or towards exaggerating it. The ultimate dividing line in modern politics is between those who aim at such equality as is possible and those who adhere to class and social distinctions as a preferable ideal. Liberals have never been able to make up their mind on which side of the

line they stand; but their traditions should place them on the side of equality.

The irritation caused by an irrational inequality of means is not, however, the only evil for which the existing economic inequality is responsible, nor the evil of which the advocates of private enterprise must take account first. Under private enterprise production has an admirable adaptability and elasticity, directing production automatically to demand, by providing an index of wants in market prices. But the demand that determines prices expresses human need and desire only so far as these are backed by purchasing power. The inequality of means, therefore, perverts the price index, and makes of the responsiveness of production to price movements an automatic arrangement for misdirecting production. When the Socialist talks about production for use and contrasts it with production for profit, it is this automatic misdirection, due to inequality of means among consumers, that he has in mind. His remedy, an authoritative determination of wants and of "use," is worse than the evil; but the evil is real.

Similarly, the Socialist is right in protesting against the subordination of the many to the few that modern industry involves, and wrong in the remedy he proposes. It is an evil because it tends to turn men into machines, and at the same time to create positions of authority which there are too few men capable of filling. But none of the numerous varieties of Socialism, with which the Labour Party has allied itself at different times, could have any effect except still further to concentrate authority and subject the workers to a more detailed and complete subordination. All alike involve the establishment of legal monopolies, and are based on the subordination of the economic organisation to the State; so that the economic administrator would be also a public official, exercising powers conferred upon him by Parliament in addition to the powers which he wields by virtue of his position in industry, and the worker would have no alternative market for his special skill, if he quarrelled with his public employer. The extinction of free enterprise by the completion and legalisation of monopoly would result in a bureaucratic inequality as oppressive

as, and more difficult to control than, the present inequality.

Laissez faire frees the individual from the legal obstructions to the exercise of initiative. By neglecting the inequalities which this freeing of initiative necessarily created, it at the same time relinquished him to a new unofficial servitude to the rich consumer and to the mechanical organisation of production. The problem of modern society is to rehabilitate the individual. This cannot be done by enmeshing him still further in a network of organisation, in which his freedom would depend on paper constitutional safeguards, useful only to active politicians. Most people have no liking or aptitude for political agitation or service on committees; already the constitution is creaking with the burden on Parliament; and to add additional burdens can have the effect only of increasing the control which the rhetoricians and intriguers ("wanglers" is the description they prefer), who enjoy agitation and committee work, can exercise over their fellow-countrymen. Capitalism abridges freedom less than the subordination of industry to a political machine that has lost its responsiveness to public feeling. The rehabilitation of the individual, therefore, must be attained by a direct pursuit of equality. A crude attempt to impose equality is impracticable; but existing inequality can be lessened and future inequality checked. And the chief means to this end must be the diffusion of property, the traditional basis of personal independence, and a sharper differentiation of the economic and political organisation of society. Already the industrial code has abolished the cruder forms of exploitation, and Liberal finance, operating on the growing resources provided by private enterprise, by concentrating taxation on the larger incomes and making provision for the risks of wage-earning life, has secured to the mass of the population a level of economic well-being that aristocracies did not always command before the nineteenth century. If these measures could be supplemented by some device that ensured a wider diffusion of property, the chief objections of egalitarian democracy to private enterprise would be met. It is this consideration that accounts for the recent interest in proposals for regulating

the right of bequest, a subject in which Bentham and Mill were interested, but which has been neglected by Liberals since.

Death Duties check private inequalities; but only by subjecting a larger proportion of the country's wealth to the uneconomic control of the politician. The same objection holds to the ingenious, though impracticable, proposal of Rignano, of making death duties progressive *in time*, so that the State takes, say, a third of an estate when it passes at death for the first time, two-thirds of the residue when it passes a second time, and the whole of the residue when it passes for the third time. A more direct approach to the object in view might be attained by an extension of a principle operating in French law, which limits the right of testamentary bequest to a fraction, the size of which depends on the number of his children, of the testator's estate. Limit, it is suggested, the proportion of his estate that a testator can bequeath to any one person, and make the fraction smaller as the estate is larger. The institution of joint-stock corporations has made it possible to divide the ownership of any industrial or commercial enterprise, while maintaining its economic integrity. If this suggestion is too much an innovation the existing death duties might be recast to effect the same object. Let the State collect the same, or whatever aggregate amount was thought necessary, but substitute as the basis of assessment the amount of the bequest for the amount of the estate, graduating the tax as at present. The effect would be that an estate of a million that was left to a single heir would be taxed at a much higher rate than at present, while an estate of equal value that was divided fairly equally between a hundred beneficiaries would be taxed at a much lower rate. It is reasonable to expect that the rich, in framing their dispositions, would have this effect in mind, so that the change of basis would promote the more equal distribution of capital. It would hardly be possible to frame a scale of assessment that would lead in the first generation to a diffusion that would reach any large proportion of the property-less proletariat; but it would be easy to frame a scheme that would do something to restore the fortunes of the non-commercial, small-

propertied middle class, on whom, since the aristocracy was superseded by a plutocracy, the maintenance of the finer arts of life mainly depends.

With an industrial code that prevented the grosser forms of exploitation, a reasonable minimum of free education and of provision for all cases of invalidity and unemployment, and the repartition by inheritance of large aggregations of capital in every generation, private enterprise would present a very different aspect. The positive and essential elements of *laissez faire* would be preserved; economic relations could be left to be determined by private contract; the State could be relieved of the impossible task of determining by authority the valuation of services and the distribution of wealth; and the greater part of the case for public direction of economic enterprise would have disappeared. There would remain certain economic functions that require for their efficient performance a monopolistic organisation; the railways, electricity supply, possibly banking in the form it has taken in this country, are examples. There are others, of which the manufacture and sale of alcoholic drink are the chief, in which enterprise and expansion are not desirable. Here it might seem, even in an individualist system, there is scope for State economic enterprise. The conclusion does not follow. The objection to subjecting the administration of economic enterprise to the kind of interference by Parliamentary question and debate, and the determination of economic issues on political grounds, that Government control involves, is even stronger than in the case of socially less important industries. A monopolistic organisation and public control must be sought, and can be found, in some other device than direct Government participation in the management. A model is afforded by the Port of London Authority. For any industry in which monopoly is necessary a statutory authority can be set up, taking the form of a joint stock corporation, the directorate of which is representative, not of the shareholders only, but of all the interests —staff, consumers, local authorities—concerned with the results of the enterprise. Parliamentary and political interference with the industry is restricted then to the discussions of the Bill that establishes the corporation, or of subsequent

Bills that amend its powers and constitution; it is excluded from any part in the day-to-day administration of the enterprise. At the same time the due consideration of all interests that ought to be considered in the day-to-day administration is ensured—so far as it can be ensured by constitutional devices—by their representation on the directorate. The possibilities of the joint stock company form of economic enterprise are only just beginning to be perceived.

In framing the constitution of such public utility corporations, it is important to avoid the vice of certain socialistic schemes that bear a superficial resemblance to them. For example, the scheme proposed by the Sankey Commission for the coal-mining industry sought to combine the advantages of independent administration by a self-contained corporation with the subordination to Ministerial and Parliamentary control which Socialist politicians always desire. Thus, under the Sankey scheme, each mine was to be under the "control, management, and direction" of one manager who would, however, be "advised" by a Local Mining Council representative of the workers and the District Council. The District Council in turn would "manage" in its district the entire coal extraction, the regulation of output, control of prices, and settlement of wages "subject to the direction of the Minister of Mines." The latter was to be "assisted" by a National Mining Council, and was also to "sit in and be responsible to Parliament." The scheme is admirably framed to divide the responsibility for actually conducting the industry's operations among so many authorities, that each could shirk its responsibility if anything went wrong, and each could block the others in case of disagreement. How could the Minister discharge his responsibility to Parliament for an enterprise which was "controlled" by the mine managers, "managed" by the District Councils, and "directed" by himself on the "advice" of a "National Council"? In the case of these, as of other economic enterprises, the only satisfactory principle to follow is the sharp differentiation between the regulation of the conditions of industry, in which the political organs of society may properly participate, and the administrative direction of industry, which involves day to day

decisions that must be taken on economic, not political considerations.* Even if efficient administration could be secured, any Government responsibility for wages and prices would mean that every wage change would involve a domestic political crisis and every change in export prices a series of difficult diplomatic negotiations with the foreign consumers of our products.

The economic policy of States must be determined by political even more than by economic considerations. The Liberal view of the State was expressed by Abraham Lincoln when he said: "I sometimes think that it is impossible to give the State sufficient power to perform its necessary work without giving it so much that it becomes a danger to liberty." Liberalism regards the State as merely machinery, necessary machinery, but still only machinery. It upholds the sovereign authority of the State, but aims at preventing its abuse. The distinctive work of Liberalism in the past has been to elaborate constitutional devices for preventing the abuse of the State's powers without interfering with their proper exercise. These devices have broken down, or are in danger of breaking down, under the pressure of the present congestion of work that has been put upon the Cabinet and Parliament. Government tends to become unrepresentative and irresponsible because it has become impossible for Parliament and the electorate to watch and check a quarter

* The only section in which the Sankey Commission offered the Government any guidance on the principles to be followed in making the fundamental decisions called for in the conduct of any business, Section LVII., reads as follows:

> "In fixing the pit-head price under State ownership the following items shall be provided for:
>
> (*a*) A fair and just wage for all workers in the industry.
> (*b*) The cost of materials, etc.
> (*c*) Upkeep and management and development work.
> (*d*) Interest on the Bonds to be issued as the purchase price of the coal royalties and coal mines.
> (*e*) The contribution towards a sinking fund to redeem the Bonds.
> (*f*) A profit for national purposes."

The present dispute in the industry has arisen because at the relatively low level of wages established in 1924 over two-thirds of the output is produced at a loss.

of the things that Government does. The practical limit to the functions of Government is set by the capacity of the average Parliamentary representative to follow the Government's acts, and to make its constitutional responsibility a reality. This capacity, in turn, has its limits, and will be used to the best advantage if Government's interference with industry is restricted to the routine regulation of industrial conditions and the taxation of industrial incomes.

The war has distracted attention from the change in the relations of the State to industry which Sir William Harcourt's Budget inaugurated. Progressive taxation, compulsory insurance, Factory Acts and Trade Boards, have made possible an improvement in the economic condition of the workers greater probably than any previous generation has seen, in spite of the enormous economic cost of the war. No revolutionary change in the conduct of industry has been made, nor is any needed; the demands for such a change come mainly from people who attribute to private enterprise the waste and loss that is properly attributable to the war. Economic inequality remains to be redressed; but it can be redressed without running the risks that would attend the supersession of free enterprise, and without such an identification of the State with industry as would add international economic conflicts to the political differences that in the past have troubled peace.

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